

BAPTIST HEALTH SOUTH FLORIDA, INC.
AND AFFILIATES

**Annual Financial Report as of and for the Years Ended
September 30, 2018 and 2017**

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

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REPORT OF MANAGEMENT

The management of Baptist Health South Florida, Inc. is responsible for the integrity and objectivity of the consolidated financial statements of Baptist Health and affiliates (“Baptist Health”). The annual consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, and include amounts that are based on our best judgments with due consideration given to materiality.

Management is responsible for establishing and maintaining a system of internal controls over financial reporting and safeguarding assets against unauthorized acquisition, use or disposition. This system is designed to provide reasonable assurance as to the integrity and reliability of financial reporting and safeguarding of assets. The concept of reasonable assurance is based on the recognition that there are inherent limitations in all systems of internal controls and that the cost of such systems should not exceed the benefits to be derived from them.

Management believes that the foundation of an appropriate system of internal controls is a strong ethical company culture and climate. It has always been the policy and practice of Baptist Health to conduct its affairs in a highly ethical and socially responsible manner. This responsibility is characterized and reflected in Baptist Health’s Code of Ethics (the “Code”) that is distributed throughout Baptist Health. Management maintains a systematic program to ensure compliance with this Code.

The Audit and Compliance Committee of the Board of Trustees, which is composed of independent persons who are not employees, meets periodically with management, the internal auditors and the independent auditors to review the manner in which these groups are performing their responsibilities and to carry out the Audit and Compliance Committee’s oversight role with respect to auditing, internal controls and financial reporting matters. Both the internal auditors and the independent auditors periodically meet privately with the Audit and Compliance Committee and have access to its individual members.

Baptist Health engaged Deloitte & Touche LLP, independent auditors, to audit our accompanying consolidated financial statements as of and for the years ended September 30, 2018 and 2017, in accordance with auditing standards generally accepted in the United States of America. Their report follows.



Brian E. Keeley
President and Chief Executive Officer



Matthew Arsenault
Executive Vice President and
Chief Financial Officer

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED FINANCIAL STATEMENTS
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Deloitte & Touche LLP
Certified Public Accountants
333 Southeast 2nd Avenue
Suite 3600
Miami, FL 33131
USA

Tel: +1 305 372 3100
Fax: +1 305 372 3160
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Baptist Health
South Florida, Inc. and Affiliates:

We have audited the accompanying consolidated financial statements of Baptist Health South Florida, Inc. and affiliates ("BHSF"), which comprise the consolidated balance sheets as of September 30, 2018 and 2017, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to BHSF's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of BHSF's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of BHSF as of September 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental consolidating balance sheet and statement of operations information of BHSF on pages 37 and 38 and the supplemental combining balance sheet and statement of operations information of BHSF Hospitals on page 39 and 40 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. This information is the responsibility of the BHSF's management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

December 21, 2018

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 2018 AND 2017

<u>ASSETS</u>	<u>2018</u>	<u>2017</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$146,779,645	\$131,859,287
Assets whose use is limited	50,335,043	50,335,043
Accounts receivable - net	321,410,129	276,723,762
Other current assets	151,851,267	123,737,578
Total current assets	670,376,084	582,655,670
ASSETS WHOSE USE IS LIMITED	3,038,850,158	2,745,452,849
OTHER INVESTMENTS	126,824,705	77,833,522
PROPERTY AND EQUIPMENT - NET	2,203,975,074	1,879,402,647
GOODWILL	77,440,043	72,507,450
OTHER ASSETS	146,441,072	71,440,752
TOTAL ASSETS	\$6,263,907,136	\$5,429,292,890
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable	\$48,537,917	\$17,426,746
Estimated third-party payor settlements	4,317,388	6,607,710
Commercial paper notes	50,000,000	50,000,000
Current maturities of long-term debt	13,090,000	14,510,000
Capital lease obligations - current portion	1,124,855	93,996
Accrued wages, salaries and benefits	263,467,871	243,979,408
Accrued expenses and other current liabilities	368,972,637	325,297,227
Total current liabilities	749,510,668	657,915,087
LONG-TERM DEBT	1,355,783,124	1,177,993,098
CAPITAL LEASE OBLIGATIONS	13,543,916	210,001
OTHER LIABILITIES	243,223,236	141,996,239
Total liabilities	2,362,060,944	1,978,114,425
COMMITMENTS AND CONTINGENCIES (see Note 15)		
NET ASSETS:		
Unrestricted:		
Baptist Health South Florida, Inc. and Affiliates	3,734,828,213	3,319,994,650
Noncontrolling interests	36,998,224	33,151,335
Total unrestricted net assets	3,771,826,437	3,353,145,985
Temporarily restricted	115,079,423	84,376,674
Permanently restricted	14,940,332	13,655,806
Total net assets	3,901,846,192	3,451,178,465
TOTAL LIABILITIES AND NET ASSETS	\$6,263,907,136	\$5,429,292,890

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATESCONSOLIDATED STATEMENTS OF OPERATIONS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:		
Net patient service revenue before provision for doubtful accounts	\$3,325,540,754	\$2,814,753,493
Provision for doubtful accounts	450,298,593	410,054,826
Net patient service revenue	<u>2,875,242,161</u>	<u>2,404,698,667</u>
Rental revenue	13,047,673	10,242,833
Other operating revenue	<u>96,786,034</u>	<u>64,820,791</u>
Total unrestricted revenues, gains and other support	<u>2,985,075,868</u>	<u>2,479,762,291</u>
EXPENSES:		
Wages, salaries and benefits	1,638,434,439	1,373,446,858
Supplies	463,136,931	376,075,158
Malpractice and other insurance	87,677,174	60,698,750
Administrative and general	583,394,829	491,676,336
Depreciation and amortization	194,212,896	160,774,582
Interest	<u>56,267,588</u>	<u>48,428,321</u>
Total expenses	<u>3,023,123,857</u>	<u>2,511,100,005</u>
LOSS FROM OPERATIONS	<u>(38,047,989)</u>	<u>(31,337,714)</u>
OTHER INCOME:		
Investment income	217,115,128	295,044,954
Gain on extinguishment of long-term debt	1,454,959	
Inherent contribution of unrestricted net assets from affiliation with Bethesda Health	254,137,352	
Other (loss) income - net	<u>(6,723,756)</u>	<u>39,734</u>
Total other income	<u>465,983,683</u>	<u>295,084,688</u>
EXCESS OF REVENUES OVER EXPENSES BEFORE INCOME TAX PROVISION AND NONCONTROLLING INTERESTS	427,935,694	263,746,974
INCOME TAX PROVISION	<u>259,364</u>	<u>521,904</u>
EXCESS OF REVENUES OVER EXPENSES FROM CONSOLIDATED OPERATIONS	427,676,330	263,225,070
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(22,091,964)</u>	<u>(18,901,083)</u>
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	<u>\$405,584,366</u>	<u>\$244,323,987</u>

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATESCONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
UNRESTRICTED NET ASSETS:		
Excess of revenues over expenses from consolidated operations	\$427,676,330	\$263,225,070
Net assets released from restrictions used for property and equipment acquisitions	2,902,613	11,625,480
Change in value of split-interest agreements	(458,767)	(124,379)
Transfers (to) from temporarily restricted net assets	(60,000)	7,461
Noncontrolling interest related to surgery centers	4,070,158	17,459,016
Sale of limited partnership interests	794,006	1,154,707
Purchase of limited partnership interests	(843,746)	(697,363)
Partnership distributions	(22,265,493)	(19,149,661)
Change in value of pension liability	6,865,351	
	<u>418,680,452</u>	<u>273,500,331</u>
Increase in unrestricted net assets		
TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	29,174,027	25,973,065
Inherent contribution of temporarily restricted net assets from affiliation with Bethesda Health	19,042,264	
Restricted income on temporarily restricted contributions	1,805,943	224,168
Net assets released from restrictions	(18,320,756)	(14,048,143)
Net assets from acquisitions		295,319
Transfers from (to) unrestricted net assets	60,000	(7,461)
Provision for uncollectable pledges	(1,058,729)	(335,557)
	<u>30,702,749</u>	<u>12,101,391</u>
Increase in temporarily restricted net assets		
PERMANENTLY RESTRICTED NET ASSETS:		
Contributions	229,003	494,832
Inherent contribution of permanently restricted net assets from affiliation with Bethesda Health	1,246,741	
Provision for uncollectable pledges	(191,218)	
	<u>1,284,526</u>	<u>494,832</u>
Increase in permanently restricted net assets		
INCREASE IN NET ASSETS	450,667,727	286,096,554
NET ASSETS - BEGINNING OF YEAR	<u>3,451,178,465</u>	<u>3,165,081,911</u>
NET ASSETS - END OF YEAR	<u><u>\$3,901,846,192</u></u>	<u><u>\$3,451,178,465</u></u>

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$450,667,727	\$286,096,554
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	194,212,896	160,774,582
Provision for doubtful accounts	450,298,593	410,054,826
Accretion of bond premium and issue costs - net	(4,368,694)	(430,659)
Deferred income tax	(1,352,735)	(173,636)
Realized gains on sales of securities - net	(186,020,756)	(86,794,515)
Change in net unrealized gains and losses	28,578,369	(151,211,678)
Sales of limited partnership interests	(794,006)	(1,154,707)
Purchases of limited partnership interests	843,746	697,363
Inherent contributions of unrestricted net assets from affiliation with Bethesda Health	(254,137,352)	
Inherent contribution of restricted net assets from affiliation with Bethesda Health	(20,289,005)	
Partnership distributions	22,265,493	19,149,661
Noncontrolling interest related to surgery center acquisitions	(4,070,158)	(17,459,016)
Loss (gain) on disposal of assets - net	455,875	(215,417)
Gain on extinguishment of debt - net	(1,454,959)	
Pension settlement	5,895,398	
Pension liability adjustment	(6,865,351)	
Changes in assets and liabilities:		
Net increase in accounts receivable	(455,011,745)	(427,212,142)
Net increase in other assets	(50,195,865)	(16,450,007)
Net increase in accounts payable	19,169,315	1,329,239
Net decrease in third-party payor settlements	(2,290,322)	(1,255,781)
Net increase in accrued expenses and other liabilities	39,966,638	11,159,625
Net increase in accrued wages, salaries and benefits	4,690,045	6,329,181
Net cash provided by operating activities	<u>230,193,147</u>	<u>193,233,473</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(283,019,417)	(284,647,470)
Inherent contribution of cash from affiliation with Bethesda Health	16,482,933	
Acquisitions of surgery centers and physician practices	(2,892,542)	(1,153,236)
Acquisition of assets relating to Fishermen's Hospital		(13,095,302)
Investment in the formation of Health Systems Solutions, LLC	(3,600,000)	
Sales of limited partnership interests	794,006	1,154,707
Purchases of limited partnership interests	(843,746)	(697,363)
Purchases of investments	(3,858,682,505)	(3,799,394,981)
Proceeds from sales and maturities of investments	<u>3,947,685,620</u>	<u>3,673,406,324</u>
Net cash used in investing activities	<u>(184,075,651)</u>	<u>(424,427,321)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contribution restricted for property and equipment purchases	6,796,099	4,410,214
Proceeds from issuance of commercial paper notes - net		24,700,556
Proceeds from issuance of long-term debt	895,943,006	250,000,000
Debt issue costs	(5,803,959)	(2,138,000)
Repayment of capital lease obligations and long-term debt	(905,866,791)	(13,909,899)
Partnership distributions	<u>(22,265,493)</u>	<u>(19,149,661)</u>
Net cash (used in) provided by financing activities	<u>(31,197,138)</u>	<u>243,913,210</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	14,920,358	12,719,362
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>131,859,287</u>	<u>119,139,925</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$146,779,645</u>	<u>\$131,859,287</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid for interest - net of amounts capitalized	<u>\$56,412,000</u>	<u>\$44,516,000</u>
Cash paid for income taxes	<u>\$1,415,000</u>	<u>\$1,183,400</u>

See accompanying notes to consolidated financial statements.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED SEPTEMBER 30, 2018 AND 2017

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Baptist Health South Florida, Inc. (“BHSF” or “Baptist Health”), a not-for-profit Florida corporation located in Miami-Dade County, Florida, is the parent of a system of not-for-profit hospitals and other not-for-profit and for-profit corporations.

Mission - The mission of Baptist Health is to improve the health and well-being of individuals, and to promote the sanctity and preservation of life, in the communities it serves. Baptist Health is a faith-based organization guided by the spirit of Jesus Christ and the Judeo-Christian ethic, and is committed to maintaining the highest standards of clinical and service excellence, rooted in the utmost integrity and moral practice. Consistent with its spiritual foundation, Baptist Health is dedicated to providing high-quality, cost-effective, compassionate healthcare services to all, regardless of religion, creed, race or national origin, including, as permitted by its resources, charity care to those in need.

Organization - The affiliated not-for-profit hospitals of BHSF are Baptist Hospital of Miami, Inc. (“Baptist Hospital”), Doctors Hospital, Inc. (“Doctors Hospital”), Homestead Hospital, Inc. (“Homestead Hospital”), South Miami Hospital, Inc. (“South Miami Hospital”) and West Kendall Baptist Hospital, Inc. (“West Kendall Baptist Hospital”), all located in south Miami-Dade County, Florida; Mariners Hospital, Inc. (“Mariners Hospital”) and Fishermen’s Health, Inc. (“Fishermen’s Community Hospital”) located in Monroe County, Florida; and Bethesda Hospital, Inc. (“Bethesda Hospital”) which operates the Bethesda Health East and Bethesda Health West facilities, both located in Palm Beach County, Florida (collectively, the “BHSF Hospitals” which excludes Bethesda Hospital for the fiscal year ended September 30, 2017). BHSF also includes Baptist Outpatient Services, Inc. (“BOS”), a Florida not-for-profit corporation, which owns and operates two large diagnostic imaging centers, one located on the Baptist Hospital campus, and a second center located on the West Kendall Baptist Hospital campus, 15 satellite diagnostic imaging facilities in Miami-Dade and Broward counties, two express care centers, and a home health agency, and manages 18 urgent care centers, of which seven operate under the license of Baptist Hospital and eleven under the license of South Miami Hospital; Baptist Health Medical Group, Inc. (“BHMGM”), a wholly owned Florida not-for-profit corporation, which is the sole member of various physician practice limited liability companies that provide medical services to various BHSF affiliates, and, together with the affiliates and the Bethesda Health Physician Group, Inc., employ over 271 physicians; Miami Cancer Institute at Baptist Health, Inc., (“MCIBH”) a Florida not-for-profit corporation whose purpose is to manage all oncology clinical and research activities for BHSF and its affiliates; and Baptist Health South Florida Foundation, Inc. (the “Foundation”), a Florida not-for-profit corporation, whose purpose is to raise funds for the other not-for-profit corporations within BHSF.

On October 1, 2017, full affiliation occurred with Bethesda Health, Inc. and affiliated companies (“Bethesda Health”). Bethesda Health includes not-for-profit entities Bethesda Hospital, the Bethesda Hospital Foundation, Inc. (the Bethesda Foundation”), Bethesda Health Comprehensive Imaging Services, Inc., Bethesda Outpatient Services, Inc., Bethesda Payroll Services, Inc., and a for-profit entity Bethesda Holding Company, Inc. The results of Bethesda Health are not included in the prior period information in the accompanying consolidated balance sheet as of September 30, 2017 (see Note 2).

Pursuant to a Master Trust Indenture, an obligated group (the “BHSF Obligated Group”) was created which, at September 30, 2017, consisted of BHSF, the BHSF Hospitals, and Baptist Outpatient Services, Inc. (“BOS”). On October 1, 2017, a Fourth Supplemental Master Trust Indenture admitted members from the Bethesda Health affiliation into the BHSF Obligated Group, specifically, Bethesda Hospital, Inc., Bethesda Health, Inc., Bethesda Health Comprehensive Imaging Services, Inc., Bethesda Health Outpatient Services, Inc., and Bethesda Payroll Services, Inc. Each member of the BHSF Obligated Group is jointly and severally liable for all debt issued under the Master Trust Indenture (see Note 7). Under the BHSF Master Trust Indenture, the BHSF Obligated Group must comply with restrictions on incurrence of additional debt and certain other covenants.

Baptist Health Enterprises, Inc. (“BHE”) is a for-profit Florida corporation, which is wholly owned by BHSF. BHE, through its subsidiaries, owns interests, between approximately 26% and 68%, in limited liability companies (“LLC”) and limited partnerships (“LP”) which own and operate ambulatory surgery centers (“surgery centers”) and sleep centers. BHE has variable interests in the LLCs and LPs through its equity ownership interests. Each LLC and LP is considered a Variable Interest Entity (“VIE”) due to its structure as a limited partnership or functional equivalent. For those LLCs and LPs which BHE consolidates, BHE is considered the primary beneficiary due to the partnership agreements allowing BHE to govern the day-to-day activities and thereby control the most significant economic activities. The total assets (excluding goodwill and intangible assets, net) of the consolidated VIEs within the ambulatory services segment, which are included in the accompanying consolidated balance sheets, as of September 30, 2018 and 2017, were approximately \$41,897,000 and

\$38,262,000, respectively, and the total liabilities of the consolidated VIEs were approximately \$10,218,000 and \$10,152,000, respectively.

GAAP requires VIEs to be consolidated if an entity's interest in the VIE is a controlling financial interest. Under the variable interest model, a controlling financial interest is determined based on which entity, if any, has (i) the power to direct the activities of the VIE that most significantly impacts the VIE's economic performance and (ii) the obligations to absorb the losses that could potentially be significant to the VIE or the right to receive benefits from the VIE that could potentially be significant to the VIE. BHE performs assessments of (i) whether entities acquired in the current period should be accounted for under the VIE framework, and (ii) whether entities previously evaluated under the majority voting-interest framework have become VIEs, based on certain triggering events, and therefore would be subject to the VIE consolidation framework. The consolidation status of the VIEs with which BHE is involved may change as a result of such reassessments. Changes in consolidation status are applied prospectively with assets and liabilities of a newly consolidated VIE initially recorded at fair value.

BHSF owns Pineapple Insurance Company ("PIC"), a single-parent, Cayman Islands captive insurance company, to facilitate BHSF's professional and general liability and self-insurance programs, including contracting for reinsurance (see Note 10). Samaritan Risk Retention Group, Inc. ("SRRG", and together with PIC, the "Insurance Companies") is licensed to transact business under the laws of the state of South Carolina. SRRG is also chartered as a risk retention group and is registered to conduct business in the state of Florida. SRRG was organized for the purpose of offering professional liability insurance to qualifying physicians. In March 2006, SRRG issued a surplus note in the amount of \$5,000,000 to BHSF. Until the note is satisfied, the governing Board of Directors of SRRG is elected by proxy and controlled by BHSF. Principal payments on this note began in fiscal year 2015.

In July 2015, Miami Cardiac & Vascular Institute Management Company, LLC ("MCVI Management Company"), a Florida limited liability company, was formed. MCVI Management Company was established to provide management services for the Miami Cardiac & Vascular Institute. BHSF has a 50% interest in MCVI Management Company which is accounted for using the equity method. MCVI Management Company was funded with an investment of approximately \$1,580,000. BHSF's investment in MCVI Management Company, which is recorded in other assets in the accompanying consolidated balance sheet, was approximately \$1,964,000 and \$1,960,000, as of September 30, 2018 and 2017, respectively.

In October 2017, BHE entered into a joint venture agreement with a physical therapy company. In March 2018, BHSF made an initial investment in Baptist Health International Cayman Islands, Ltd. ("BHICI"), a single-parent, Cayman Islands company. In April 2018, BHSF and Navigant Consulting, Inc. formed Health Systems Solutions, LLC. ("HSS"), a joint venture that is in the business of providing revenue cycle management services (see Note 2).

Basis of Presentation - The consolidated financial statements include the accounts of BHSF, the BHSF Hospitals, BOS, Bethesda Health members of the BHSF Obligated Group ("Bethesda Health and Related Companies") which consists of Bethesda Health, Inc., Bethesda Health Comprehensive Imaging Services, Inc., Bethesda Health Outpatient Services, Inc., and Bethesda Payroll Services, Inc., and non-obligated group affiliates ("Combined Non-Obligated Group Affiliates") which consists of BHMGM, MCIBH, the Foundation, BHE and subsidiaries, Insurance Companies, BHICI, Bethesda Foundation, and Bethesda Holding Company, Inc. All intercompany transactions have been eliminated in consolidation.

Use of Estimates - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Significant estimates and assumptions are used for, but not limited to: recognition of net patient service revenue; valuation of accounts receivable, including contractual allowances and allowances for doubtful accounts; reserves for losses and expenses related to employee healthcare and professional and general liability risks; asset impairments, including goodwill; and estimated third-party settlements, pension obligations, and fair value of assets acquired and liabilities assumed through affiliation. Future events and their effects cannot be predicted with certainty; accordingly, management's accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of the accompanying consolidated financial statements may change as new events occur, as more experience is acquired, as additional information is obtained and as the operating environment changes. Management regularly evaluates the accounting policies and estimates it uses. In general, management relies on historical experience and on other assumptions believed to be reasonable under the circumstances, and may employ outside experts to assist in the evaluation, as considered necessary. Although management believes all adjustments considered necessary for fair presentation have been included, actual results may vary from those estimates.

Community Benefits - In pursuing its mission, BHSF provides services to the financially disadvantaged and to the broader community in which it operates, despite the lack or adequacy of payment for those services. These services are categorized as follows:

Charity Care - BHSF provides a level of charity care that is consistent with the needs of the community it serves and the financial resources that are available. All or a portion of the charges incurred at established rates are classified as charity by reference to BHSF's established policies. Essentially, these policies define charitable services as those for which no payment is anticipated. In assessing a patient's ability to pay, BHSF utilizes generally recognized poverty income levels for the respective community, but also includes certain cases where incurred charges are considered to be beyond the patient's ability to pay. In addition, BHSF provides services to other indigent patients under various state and local programs, which pay healthcare providers amounts that are less than the cost of the services provided. Because BHSF does not pursue collection of amounts determined to qualify as charity care, such amounts are not reported as net patient service revenue in the accompanying consolidated financial statements (see Note 3).

Other Community Benefits - BHSF has entered into agreements to pay certain physician specialists for healthcare services they provide to BHSF's charity care patients. In addition to the services that are provided to the financially disadvantaged, BHSF provides services to the broader community. These services include educational programs, community information on health services, donations and the cost of healthcare in excess of payments for patients under federal and state programs. Additionally, the BHSF Hospitals have conducted individual community health needs assessments and adopted written implementation plans to focus on the particular characteristics of each hospital's patients and community, and their respective needs.

Treasury Policy - BHSF has a system-wide treasury policy, which recognizes its responsibility to oversee, manage and coordinate all affiliate operations, including the treasury functions. BHSF serves as the centralized cash receipt and disbursing agent for all BHSF entities. The treasury policy provides that each BHSF affiliate's unrestricted cash and investments be transferred to BHSF, and that BHSF provide or arrange for advances and loans to its affiliates and provide financial support for the BHSF Hospitals and the other corporations comprising the system. These transfers have been eliminated in consolidation. Debt and related issuance costs are allocated to affiliates based on the use of debt proceeds. As of the October 1, 2017 affiliation date, Bethesda Health's treasury functions have been integrated as per the policy.

Reclassification - As of September 30, 2018, BHSF separately presented capital lease obligations in the capital lease obligations and current portion of capital lease obligations in the accompanying consolidated balance sheet. The corresponding September 30, 2017 capital lease obligations, which were previously presented in long-term debt and current maturities of long-term debt in the consolidated balance sheet, have been presented separately to conform to the September 30, 2018 presentation.

New Accounting Pronouncements - In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), which outlines a single comprehensive model for recognizing revenue and supersedes most existing revenue recognition guidance, including guidance specific to the healthcare industry. ASU 2014-09 affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets, unless those contracts are within the scope of other standards. The core principle of the guidance in ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606), Deferral of the Effective Date*. ASU 2015-14 defers the effective date of ASU 2014-09 for all affected entities. As a result, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those reporting periods. In March 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers: Principal Versus Agent Considerations (Reporting Revenue Gross Versus Net)*. This guidance amends the principal versus agent implementation guidance and illustrations in FASB revenue standard ASU 2014-09. In May 2016, the FASB issued ASU 2016-12, *Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients*, which amends certain aspects of FASB revenue standard ASU 2014-09. After the deferral of the effective date, ASU 2014-09 is effective for BHSF beginning on October 1, 2018. BHSF has completed its evaluation of the requirements of the new standard to ensure that it has processes, systems and internal controls in place to collect the necessary information to implement the standard. The modified retrospective approach will be used to adopt ASU 2014-09. For health care operations, BHSF will use a portfolio approach to apply the new model to classes of patients with similar characteristics and will analyze cash collection trends over an appropriate collection look-back period, depending on the payor. Adoption of ASU 2014-09 will result in changes to the presentation and disclosure of revenue related to uninsured or self-pay patients as under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to unrestricted revenue and, correspondingly, result in a material reduction in the amounts presented separately as bad debts. BHSF has completed the assessment of the impact of ASU 2014-09 on various reimbursement programs that represent variable consideration and believes that accounting for these programs under the new standard is substantially consistent with historical accounting practices. These include supplemental state Medicaid programs, disproportionate share payments, and settlements with third-party payors. Due to potential changes in estimates as a result of the adoption of this standard, BHSF anticipates an increase in net patient

service revenue and net patient accounts receivables to its consolidated statement of operations and consolidated balance sheet, respectively.

In November 2015, the FASB issued ASU 2015-17, *Balance Sheet Classification of Deferred Taxes (Topic 740)* (“ASU 2015-17”). ASU 2015-17 provides guidance to simplify the presentation of deferred income taxes. Under ASU 2015-17, deferred tax liabilities and assets are required to be classified as noncurrent in a classified statement of financial position. ASU 2015-17 is effective for fiscal years beginning after December 15, 2017. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities* (“ASU 2016-01”). ASU 2016-01 requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The update also requires an entity to separately present the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842): Section A-Leases: Amendments to the FASB Accounting Standards Codification; Section B-Confirming Amendments Related to Leases: Amendments to the FASB Accounting Standards Codification; and Section C-Background Information and Basis for Conclusions* (“ASU 2016-02”) which supersedes existing guidance on accounting for leases and generally requires all leases to be recognized in the balance sheet. The provisions of ASU 2016-02 are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. The provisions of this update are to be applied using a modified retrospective approach. BHSF expects to adopt this ASU including supplemental guidance from ASU 2018-11, *Leases (Topic 842); Targeted Improvements*, issued in July 2018, on October 1, 2019. ASU 2018-11 provides additional transition methods to adopt the new leases standard. BHSF has established an implementation group to transition to the new standard. BHSF cannot reasonably estimate at this time the quantitative impact that the adoption of this accounting standard will have on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments—Equity Method and Joint Ventures (Topic 323) Simplifying the Transition to the Equity Method of Accounting* (“ASU 2016-07”). ASU 2016-07 eliminates the requirement to retrospectively apply the equity methods in previous periods for an investment that qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. The update requires that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor’s previously held interest, and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The provisions of this ASU are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. BHSF adopted this standard as of October 1, 2017. The adoption of this standard had no impact on BHSF’s consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *Not-For-Profit Entities – Presentation of Financial Statement of Not-for-Profit Entities (Topic 958)* (“ASU 2016-14”). ASU 2016-14 requires not-for-profit entities to present on the balance sheet amounts for two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) rather than the three classes currently required. Not-for-profit entities are required to enhance disclosures regarding board designations and composition of net assets with donor restrictions. ASU 2016-14 is effective for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018. ASU 2016-14 is applied on a retrospective basis in the year in which the guidance is adopted. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments (Topic 230)* (“ASU 2016-15”). ASU 2016-15 clarifies the guidance on the classification of certain cash receipts and payments in the statement of cash flows related to debt extinguishment costs, distributions received from equity method investees, and proceeds from the settlement of insurance claims. ASU 2016-15 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In October 2016, the FASB issued ASU 2016-17, *Consolidation – Interests Held through Related Parties That Are Under Common Control (Topic 810)* (“ASU 2016-17”). ASU 2016-17 clarifies treatment of interests held by a single decision-making entity and other related parties under common control. ASU 2016-17 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. BHSF adopted this standard as of October 1, 2017. The adoption of this standard had no impact on BHSF’s consolidated financial statements.

In November 2016, The FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230) – Restricted Cash* (“ASU 2016-17”), which requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU 2016-18 is effective for fiscal years beginning after December 15, 2017, and interim periods with annual periods beginning after December 15, 2018. The adoption of this standard had no impact on BHSF’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* (“ASU 2017-01”). ASU 2017-01 clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. ASU 2017-01 is effective for fiscal years beginning after December 15, 2018, and interim periods with annual periods beginning after December 15, 2019. BHSF adopted this standard as of October 1, 2017. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In January 2017, the FASB issued ASU 2017-02, *Update 2017-02—Not-for-Profit Entities—Consolidation (Subtopic 958-810): Clarifying When a Not-for-Profit Entity That Is a General Partner or a Limited Partner Should Consolidate a For-Profit Limited Partnership or Similar Entity* (“ASU 2017-02”). ASU 2017-02 amends the consolidation guidance to clarify when a not-for-profit entity that is a general partner or a limited partner should consolidate a for-profit limited partnership or similar legal entity. ASU 2017-02 is effective for fiscal years beginning after December 15, 2016, and interim periods within fiscal years beginning after December 15, 2017. BHSF adopted this standard as of October 1, 2017. The adoption of this standard had no impact on BHSF’s consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* (“ASU 2017-04”). ASU 2017-04 simplified the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. ASU 2017-04 is effective for fiscal years beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests performed on dates after January 1, 2017. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In March 2017, the FASB issued ASU 2017-07, *Compensation – Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost* (“ASU 2017-07”). ASU 2017-07 requires an employer to disaggregate the service cost component from other components of net benefit costs. The ASU also provides guidance on how to present the service cost component and the other components of net benefit cost in the income statement. ASU 2017-07 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”), which is intended to better align risk management activities and financial reporting for hedging relationships. The new standard eliminates the requirement to separately measure and report hedge ineffectiveness and generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item. It also eases certain documentation and assessment requirements. ASU 2017-12 is effective for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In June 2018, the FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (“ASU 2018-08”). ASU 2018-08 assists in evaluating whether transactions should be accounted for as contributions or exchange transactions. The guidance also assists in determining whether a contribution is conditional which would impact the timing of revenue recognition. ASU 2018-08 is effective for fiscal years beginning after June 15, 2018. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* (“ASU 2018-13”), which is intended to improve the effectiveness of disclosures by facilitating clear communication of the information required by GAAP. ASU 2018-13 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal year beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2018, the FASB issued ASU 2018-14, *Compensation-Retirement Benefits-Defined Benefit Plans (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans* (“ASU 2018-14”),

which is intended to identify a modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The provisions of this update are to be applied using a modified retrospective approach. ASU 2018-14 is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (“ASU 2018-15”), which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In October 2018, the FASB issued ASU 2018-16, *Derivatives and Hedging (Topic 815): Inclusion of the Secured Overnight Financing Rate, Overnight Index Swap Rate as a Benchmark Interest Rate for Hedge Accounting Purposes* (“ASU 2018-16”), which provides guidance on risks associated with financial assets or liabilities permitted to be hedged. ASU 2018-16 is effective for fiscal years beginning after December 15, 2019. Early adoption is permitted but FASB requires this standard to be adopted concurrently with ASU 2017-12. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In October 2018, the FASB issued ASU 2018-17, *Consolidated (Topic 810): Targeted Improvements to Related Party Guidance for Variable Interest Entities* (“ASU 2018-17”), which allows a reporting entity to not apply VIE guidance to legal entities under common control if both the parent and the legal entity being evaluated for consolidation are not public business entities. The provisions of this update are to be applied retrospectively with a cumulative-effect adjustment to retained earnings. ASU 2018-17 is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In November 2018, the FASB issued ASU 2018-18, *Collaborative Arrangement (Topic 808): Clarifying the Interaction between Topic 808 and Topic 606* (“ASU 2018-18”), which provides guidance on whether certain transactions between collaborative arrangement participants should be accounted for with revenue under Topic 606. The provisions of this update are to be applied retrospectively to the date of the initial application of Topic 606. The provisions of ASU 2018-18 are effective for reporting periods beginning after December 15, 2019, and interim periods within those fiscal years. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

In December 2018, the FASB issued ASU 2018-20, *Leases (Topic 842): Narrow-Scope Improvements for Lessors* (“ASU 2018-20”), ASU 2018-20 permits lessors, as an accounting policy election, to not evaluate whether certain sales taxes and other similar taxes are lessor costs or lessee costs. The provisions of this update may be applied either retrospectively or prospectively. The provisions of ASU 2016-02 are effective for reporting periods beginning after December 15, 2018. BHSF has not determined the impact to its consolidated financial statements from the adoption of this standard.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand and cash in depository accounts maintained with various commercial banks, which exceed federally insured limits. As such, management periodically evaluates the creditworthiness of those institutions. BHSF has not experienced any losses on such deposits. Cash equivalents also include money market funds held by the Insurance Companies.

Inventories - Inventories, totaling approximately \$49,768,000 and \$41,586,000 at September 30, 2018 and 2017, respectively, consisting primarily of pharmaceutical, medical and surgical supplies, are stated at average cost, and are included in other current assets in the consolidated balance sheets.

Assets Whose Use is Limited and Other Investments - Assets whose use is limited include assets set aside by the Board of Trustees for future capital improvements and education, over which the Board of Trustees retains control and may at its discretion subsequently use for other purposes, unspent note proceeds, and insurance surplus reserves. Assets whose use is limited that are required for obligations classified as current liabilities are reported in current assets. Other investments are held by the Foundation and the Bethesda Foundation and include certain assets whose use is restricted by donors (see Note 4).

BHSF manages the investment function based upon a comprehensive written investment policy approved by the Board of Trustees that provides for a diversified investment portfolio based upon return, risk, social values and projected liquidity requirements. Investment results, portfolio allocations and investment policy compliance are regularly reviewed with the Investment Review Committee of the Board of Trustees.

BHSF holds certain financial instruments with derivative features, including forward foreign exchange contracts and short sales of equity securities. BHSF records these derivatives at fair value in its consolidated balance sheets and records the changes in fair value of the derivatives as investment income in the consolidated statements of operations. The change in fair value of derivative instruments held by BHSF resulted in investment losses of approximately \$801,000 and \$272,000 for the years ended September 30, 2018 and 2017, respectively. BHSF also holds various hybrid financial instruments with embedded derivative features, including convertible preferred stock and convertible bonds.

BHSF records a liability for short sales and forward foreign exchange contracts that are in a loss position. The obligations arising from such transactions are recorded on a trade-date basis and carried at current market values. The majority of forward foreign exchange contract transactions are settled on a short-term basis. Contracts that are not subject to a master netting agreement represent obligations to settle the contract at a rate above the current market exchange rate. At September 30, 2018 and 2017, forward foreign exchange contract obligations totaled approximately \$3,614,000 and \$1,969,000, respectively. Short sale positions are held as part of a long-short equity investment strategy. At September 30, 2018 and 2017, short sale obligations totaled approximately \$3,212,000 and \$3,096,000, respectively. Both short sale and forward foreign exchange contract obligations are recorded in accrued expenses and other liabilities in the accompanying balance sheets.

Derivatives may expose BHSF to market risk or credit risk in excess of the amounts recorded in the consolidated balance sheets. Market risk on a derivative or foreign exchange product is the exposure created by potential fluctuations in interest rates, foreign exchange rates and other values, and is a function of the type of product, the volume of transactions, the tenor and terms of the agreement, and the underlying volatility. Credit risk is the exposure to loss in the event of non-performance by the other party to the transaction, where the value of collateral held, if any, is not adequate to cover such losses. Management does not believe that there are significant market or credit risks associated with these transactions, given BHSF's investment strategies and the overall characteristics of its investment portfolio.

BHSF held alternative investment interests in five limited partnerships as of September 30, 2017. One of the partnerships was established to invest in a broad range of infrastructure and infrastructure-related assets located in member countries of the Organization for Economic Co-operation and Development, with a primary focus on the United States, Canada, Western Europe and Australia. The second partnership was established to construct and manage a well-diversified portfolio of publicly-traded equity securities issued by real estate investment trusts and other publicly-held real estate companies in North America, Europe and Asia. The third partnership is a long-dated private debt fund that issues senior secured loans to private, middle-market companies principally located in North America. The two remaining partnerships are private real estate funds established to invest in various commercial and residential real estate investments, primarily in the United States.

BHSF entered into additional alternative investments by securing interests in six additional limited partnerships in the fiscal year ended September 30, 2018. The first new partnership is a private equity investment firm focused exclusively on the lower middle market of the upstream oil and gas industry in North America. The second partnership is a venture capital firm that invests directly into later-stage global companies, primarily in the software and biotechnology sectors. The third partnership was established to focus on areas of the equity and fixed income securities market that are not widely followed or analyzed by the investment community. The fourth is a private equity fund that take a flexible approach to secondary investing by targeting both funds and direct investments. The fifth and sixth funds are focused exclusively on North American lower-middle-market buyout fund investments and direct investments.

BHSF assumed three alternative investments in connection with the Bethesda Health affiliation. The first was a Cayman Islands offshore fund whose focus is to invest primarily in long and short positions in global publicly traded and private companies. The second was a Cayman Islands fund that uses alternative investment strategies including long and short positions in various financial instruments including swaps, exchange traded funds, options, and other direct investment vehicles. The third was a global multi-strategy hedge fund. In fiscal year 2018, BHSF submitted redemption notices to liquidate its holdings in all three alternative investments. As of September 30, 2018, both Cayman Island funds were fully redeemed. The remaining global multi-strategy hedge fund was partially redeemed, and had a redemption receivable as of September 30, 2018. In October 2018, BHSF received the proceeds from the redemption receivable and the final payment for the fund will be effective December 31, 2018, subject to a 10% holdback, with an expected pay out in January 2019.

All BHSF alternative investments are accounted for using the equity method and reported at net asset value. All gains and losses from these alternative investments are reflected in investment income. The carrying value of BHSF's interests in these alternative investments, as of September 30, 2018 and 2017, was approximately \$430,521,000 and \$293,612,000, respectively (see Note 17).

Investment securities, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and that such changes could materially affect the amounts reported in the consolidated financial statements.

Property and Equipment - Net - Property and equipment are stated at cost or, if donated, at fair market value on the date of donation, less accumulated depreciation. Depreciation is computed on the straight-line method using estimated useful lives ranging from two to forty years. Expenditures that materially increase values, change capacities or extend useful lives are capitalized, in addition to interest cost, during the period of construction. For qualifying assets, BHSF capitalizes interest cost until the assets are ready for their intended use. Gains and losses on dispositions are recorded in the year of disposal.

Gifts of long-lived assets, such as land, buildings or equipment, are reported as a direct addition to unrestricted net assets, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used, and gifts of cash or other assets that must be used to acquire long-lived assets are reported as additions to temporarily or permanently restricted net assets. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. Property and equipment are described in more detail in Note 5.

BHSF management is responsible for evaluating long-lived assets for impairment by monitoring internal and external environments for events and circumstances that would indicate that the carrying value of an asset may not be recoverable. When these events occur, management measures impairment by comparing the carrying amount of the asset to future undiscounted cash flows expected to result from the use of the asset and residual value. If the undiscounted cash flows are less than the net book value of the asset, an impairment loss based on the fair value of the asset is recognized.

Determination of the fair value of acquired long-lived assets involves certain judgments and estimates. Fair value estimates are derived from appraisals, established market values of comparable assets or internal estimates of future cash flows. These fair value estimates can change by material amounts in subsequent periods. Many factors and assumptions can impact the estimates, including future financial trends, changes in healthcare trends and regulations, and the nature of the ultimate disposition of assets. In some cases, these fair value estimates assume the highest and best use of hospital assets in the future to a market place participant other than a hospital.

Malpractice Liability Claims - Provisions for losses related to malpractice liability risks are based upon actuarially-determined estimates and represent the estimated ultimate net cost of all reported and unreported losses incurred through the respective balance sheet dates. Those estimates are subject to the effects of trends in loss severity and frequency. The estimates are reviewed and adjustments are recorded as experience develops or new information becomes known.

Temporarily and Permanently Restricted Net Assets - Temporarily restricted net assets are those for which use has been limited by donors to a specific time period or purpose. Permanently restricted net assets are those for which use is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of BHSF or its affiliates (see Note 9).

Excess of Revenues Over Expenses - The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in the value of split-interest agreements, transfers from temporarily restricted net assets, purchase and sale of limited partnership interests and partnership distributions.

Donor-Restricted Gifts - Unconditional promises to give cash and other assets to BHSF and its affiliates are reported at fair value at the date the promise is received. Contingent promises to give and indications of intentions to give are reported at fair value at the date the contingency is met. The gifts are reported as either temporarily or permanently restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets. Net assets released from restrictions used for operations are included in excess of revenues over expenses. Net assets released from restrictions used to purchase property and equipment are reported as a change in net assets.

Goodwill - Goodwill represents the excess of purchase price and related costs over the value assigned to net tangible assets and identifiable intangible assets of businesses acquired and accounted for under the acquisition method of accounting. Goodwill has arisen from various acquisitions by affiliates of BHSF (see Note 6).

Deferred Bond Issue Costs and Bond Premium - Deferred bond issue costs and bond premium are being amortized and accreted using the bonds-outstanding method. For the years ended September 30, 2018 and 2017, amortization of bond issue costs totaled approximately \$501,000 and \$419,000, respectively; and accretion of bond premium totaled approximately \$4,870,000 and \$850,000, respectively.

Indigent Care Assessment - The state of Florida Healthcare Consumer Protection and Awareness Act of 1984 created a fund to provide for the treatment of indigent patients. Hospitals in the state of Florida are required to pay into the fund an amount equal to 1.5% of net inpatient revenue and 1.0% of net outpatient revenue. The indigent care assessment is included in administrative and general expenses in the consolidated statements of operations.

Income and Other Taxes - BHSF, the BHSF Hospitals, Bethesda Health, BOS, BHMGM, MCIBH, and the Foundation are not-for-profit corporations and are recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. BHMGM affiliated physician practices are single-member LLCs, which are treated as disregarded entities for federal income tax purposes. BHE and the Insurance Companies provide for income taxes in accordance with the provisions of FASB ASC 740, *Income Taxes* ("ASC 740"). As required under ASC 740, deferred tax assets and liabilities are recognized under the balance sheet approach, which recognizes the future tax effect of temporary differences between the amounts recorded in the financial statements and the tax basis of these amounts. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the periods in which the deferred tax assets or liabilities are expected to be realized or settled (see Note 13). Taxes collected from patients, tenants, customers and others, concurrent with specific revenue-producing transactions and subsequently remitted to governmental authorities, are recorded on a net basis and excluded from revenues.

2. AFFILIATIONS, ACQUISITIONS AND DIVESTITURES

Bethesda Health – Effective October 1, 2017, full affiliation occurred with Bethesda Health. The fair value of the assets acquired exceeded liabilities assumed, resulting in an inherent contribution of approximately \$274,426,000, which was recorded as fair value of net assets acquired in the consolidated statement of operations and changes in net assets for the period ended September 30, 2018. The fair value was based on Level III valuation inputs and market participant assumptions and was determined using a discounted cash flow model and the market approach. BHSF calculated the present value of the expected cash flows based on a discount rate of 8%.

Summarized preliminary consolidated opening balance sheet information for Bethesda Health as of October 1, 2017 is shown below:

Total assets:		Total liabilities:	
Cash	\$16,482,933	Accounts payable and accrued expenses	\$30,179,771
Accounts receivable - net	46,769,314	Current maturity of long-term debt and capital lease obligation	77,547,565
Other current assets	22,229,097	Accrued wages, salaries and benefits	15,768,371
Assets whose use is limited and other investments	283,183,277	Long-term debt and capital lease obligation, net of current portion	134,738,632
Property and equipment - net	225,672,184	Other liabilities	79,584,001
Other assets	17,907,892	Total liabilities	<u>\$337,818,340</u>
Total assets	<u>\$612,244,697</u>	Total net assets:	
		Unrestricted net assets	\$254,137,352
		Temporarily restricted net assets	19,042,264
		Permanently restricted net assets	1,246,741
		Total net assets	<u>\$274,426,357</u>

As part of the affiliation, BHSF assumed the outstanding debt and capital lease obligations of Bethesda Health. As of December 28, 2017, all of Bethesda Health's outstanding debt was refunded with the proceeds from the issuance of the Series 2017 Bonds (See Note 7). The capital lease obligation is further described in Note 8.

Pursuant to the affiliation, BHSF assumed Bethesda Health's existing retirement plans, including a noncontributory, defined benefit plan (the "DBP") and is responsible for an underfunded pension liability (See Note 12). On the date of the affiliation, the DBP was underfunded by approximately \$22,796,000.

The following are the results of Bethesda Health from the date of the affiliation that have been included in the accompanying condensed consolidated statement of operations and changes in net assets for the fiscal year ended September 30, 2018:

Total unrestricted revenues, gains and other support	\$335,138,364
Excess of expenses over revenues attributable to Baptist Health South Florida, Inc. and Affiliates	(\$53,131,956)
Decrease in unrestricted net assets	(\$43,206,740)
Decrease in temporarily restricted net assets	(\$137,072)
Change in permanently restricted net assets	\$0

Following are the unaudited proforma results for the fiscal year ended September 30, 2017, as if the affiliation had occurred on October 1, 2016, which includes the inherent contribution of unrestricted net assets recognized as of the affiliation date:

Total unrestricted revenues, gains and other support	\$2,812,238,482
Excess of revenues over expenses attributable to Baptist Health South Florida, Inc. and Affiliates	\$477,303,105
Increase in unrestricted net assets	\$275,855,746
Increase in temporarily restricted net assets	\$31,143,655
Increase in permanently restricted net assets	\$1,741,573

The proforma information provided is not intended to project BHSF's results of operations for any future period.

The affiliation has been accounted for as an acquisition in accordance with the guidance on not-for-profit mergers and acquisitions.

BHE – In October 2017, BHE acquired a multi-specialty ambulatory surgery center located in Boca Raton, Florida. The total amount of cash consideration paid for a 27.2% interest was approximately \$1,900,000. Additionally, the transaction resulted in the recording of goodwill of approximately \$4,660,000 (See Note 6). The purchase price of the acquisition was allocated to the identifiable assets acquired and liabilities assumed based on estimates of their fair value, with the excess purchase price recorded as goodwill.

BHMG – In April 2018, BHMG acquired the assets of Heartwell, LLP, a physician group that provides cardiology services in Miami-Dade County, Florida. The total cash consideration for the acquisition was approximately \$1,143,000. As of December 18, 2018, the date the condensed consolidated financial statements were issued, the initial accounting for the asset purchase was not finalized, therefore, in accordance with GAAP, certain required disclosures related to business combinations are not available.

HSS – In April 2018, BHSF and Navigant Consulting, Inc. formed HSS, a joint venture that is in the business of providing revenue cycle management services. Under the terms of the operating agreement, BHSF contributed most of its revenue cycle employees and made an initial contribution for a minority interest in the joint venture. HSS commenced operations on July 9, 2018, and began providing revenue cycle management services to BHSF in accordance with the terms of the operating agreement.

BHSF accounted for the contribution to HSS in accordance with ASC 810 - *Deconsolidation of a Subsidiary or Derecognition of a Group of Assets*. BHSF determined that HSS is a VIE due to the BHSF's equity interest, the services HSS provides to BHSF, and earnings distributions; however, it is not the primary beneficiary of HSS as it does not have the power to direct the activities that most significantly impact the joint venture's economic performance. Therefore, BHSF has accounted for its investment in the joint venture under the equity method of accounting. As a result, BHSF recorded a gain of \$2,880,000, representing the difference between the fair value of the interest received in the transaction and the book value of assets contributed, in other operating revenue in the accompanying consolidated statement of operations. BHSF's investment in HSS, which is recorded in other assets in the accompanying consolidated balance sheet, was approximately \$6,577,000, as of September 30, 2018. The valuation of BHSF's interest in HSS was based on management's estimates and currently available information which include Level III valuation inputs, and was determined using a discounted cash flow model. BHSF calculated the present value of the expected cash flows attributable to HSS using a 21% discount rate.

For the year ended September 30, 2018, BHSF has recorded its participation in the earnings of HSS, which was immaterial, as other operating revenue in the accompanying consolidated financial statements. In addition, BHSF recorded revenue cycle management fee expense of \$11,427,000 in administrative and general expenses in the accompanying consolidated statement of operations.

As of December 21, 2018, the date the condensed consolidated financial statements were issued, the initial accounting for the investment was not finalized, therefore, in accordance with GAAP, certain required disclosures related to business combinations are not available

3. NET PATIENT SERVICE REVENUE

Net patient service revenue is recorded based upon established billing rates less allowances for contractual adjustments. Revenue is recorded during the period the healthcare services are provided, based upon the estimated amounts due from the patients and third-party payors, including federal and state agencies (under the Medicare and Medicaid programs), managed care health plans, commercial insurance companies and employers. Estimates of contractual allowances under managed care health plans are based upon the payment terms specified in the related contractual agreements. The bases for payment under these agreements include prospectively determined rates per diagnosis, per diem or per procedure rates, or discounts from established charges.

Mariners Hospital and Fishermen's Community Hospital are critical access hospitals ("CAH"). As such, they are certified to receive cost-based reimbursement for services provided to Medicare beneficiaries. Among other participation constraints, CAH status requires that Mariners Hospital and Fishermen's Community Hospital operate no more than 25 beds and that their average length of stay not exceed 96 hours.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Federal regulations require submission of annual cost reports covering medical costs and expenses associated with the services provided by each facility to program beneficiaries. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due to BHSF under these payment programs. These audits often require several years to reach the final determination of amounts earned under the programs. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Such audits of the Medicare cost reports have been completed for all BHSF Hospitals through 2013, with the exception of Homestead Hospital and West Kendall Baptist Hospital, which have completed audits as of fiscal year 2014, Doctors Hospital, Mariners Hospital, and Bethesda Hospital as of fiscal year 2015. Medicaid cost reports have been completed for all BHSF Hospitals through 2015 with the exception of Bethesda Hospital. The combined effects from changes in estimate related to the valuation of the prior period third-party payor settlement liability, primarily due to the completion of prior year cost report audits, was a decrease in income from operations of approximately \$2,309,000 for the year ended September 30, 2018, and an increase in income from operations of approximately \$7,513,000 for the year ended September 30, 2017.

BHSF provides charity care to patients who are financially unable to pay for the healthcare services they receive. Uninsured patients treated at BHSF facilities with household income at or below 200% to 300% of the federal poverty level are eligible for free care. In addition, uninsured patients may be eligible for charity care if incurred charges are considered beyond the patient's ability to pay. The federal poverty level is established by the federal government and is based on income and family size. BHSF provided charity care at a cost of approximately \$102,519,000 and \$90,113,000 for the years ended September 30, 2018 and 2017, respectively. The estimated cost of providing charity services is based on recent historical cost-to-charge ratios for charity patients from BHSF's cost accounting system applied to the current period gross uncompensated charges associated with providing care to charity patients.

BHSF receives payments for services rendered from government agencies (primarily the Medicare and Medicaid programs), managed care health plans, commercial insurance companies, employers and patients. BHSF's net patient service revenue related to patients participating in the traditional Medicare program during the years ended September 30, 2018 and 2017, was approximately 15% and 12% of total net patient service revenue, respectively. BHSF recognizes that revenues and receivables from the Medicare program are significant to its operations but does not believe that there are significant credit risks associated with this federal program. BHSF does not believe that there are any other significant concentrations of revenues from any particular payor that would subject it to any significant credit risks in the collection of its accounts receivable.

The concentration of net patient service accounts receivable by payor class, as a percentage of total net patient service accounts receivable, at September 30, 2018 and 2017, was as follows:

	<u>2018</u>	<u>2017</u>
Medicare	13%	12%
Medicare managed care	17%	16%
Medicaid	1%	3%
Medicaid managed care	4%	5%
Commercial managed care	55%	56%
Other	<u>10%</u>	<u>8%</u>
Total	<u>100%</u>	<u>100%</u>

BHSF provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Additions to the allowance for doubtful accounts are made by means of the provision for doubtful accounts. Accounts written-off as uncollectible are deducted from the allowance and subsequent recoveries are added. BHSF estimates the allowance for doubtful accounts by reserving a percentage of accounts receivable based on historical and expected collections, business and economic conditions, trends in reimbursement, and other collection indicators. For receivables associated with services provided to patients who have third-party coverage, including receivables from government agencies, BHSF analyzes contractually due amounts and provides an allowance for doubtful accounts. For all payor types, when BHSF can no longer reasonably estimate collectability of an account based on the aging of the balance due and the volatility and unpredictable nature of the amount, BHSF reserves substantially all amounts due. Recoveries on written-off accounts receivable are recorded in the period the recovery occurs as an increase in net patient service revenue through an adjustment to the provision for doubtful accounts. The combined effects from changes in estimates related to the valuation of prior periods accounts receivables, primarily due to favorable payment experience from patients and third-party payors, was an increase in income from operations of approximately \$31,400,000 and \$33,600,000 for the years ended September 30, 2018 and 2017, respectively.

Collections are impacted by the ability of patients to pay and the effectiveness of BHSF's collection efforts. Significant changes in payor mix, business office operations, economic conditions, or trends in federal and state governmental healthcare coverage could affect BHSF's collection of accounts receivable and the estimates of the collectability of future accounts receivable. The process of estimating the allowance for doubtful accounts requires BHSF to estimate the collectability of self-pay accounts receivable, which is primarily based on its collection history, adjusted for expected recoveries and, if available, anticipated changes in collection trends. BHSF also continually reviews its overall reserve adequacy by monitoring historical cash collections as well as by analyzing payor classification, aged accounts receivable by payor, days revenue outstanding, and business and economic conditions.

The following summarizes net patient service revenue before the provision for doubtful accounts by payor class for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Net patient service revenue before provision for doubtful accounts		
Medicare	\$442,075,953	\$303,388,594
Medicare managed care	426,100,075	340,278,789
Medicaid	61,201,180	80,578,597
Medicaid managed care	97,979,120	112,269,232
Commercial managed care	1,832,493,636	1,585,318,888
Other	<u>465,690,790</u>	<u>392,919,393</u>
Net patient service revenue before provision for doubtful accounts	<u>\$3,325,540,754</u>	<u>\$2,814,753,493</u>

The following summarizes the activity in BHSF's allowance for doubtful accounts for the years ended September 30, 2018 and 2017:

Balance, beginning of year	\$219,014,499	\$174,451,279
Provision, during the year	450,298,593	410,054,826
Accounts written off (net of recoveries)	<u>(441,610,269)</u>	<u>(365,491,606)</u>
Balance, end of year	<u>\$227,702,823</u>	<u>\$219,014,499</u>

Net patient service revenue recognized for medical services rendered includes adjustments resulting from reviews and audits of prior-year Medicare and Medicaid cost reports and subsequent payment experience from patients and third-party payors. Such adjustments are considered in the recognition and estimation of revenue in the periods the adjustments become known or as cost report years are no longer subject to reviews and audits.

During the years ended September 30, 2018 and 2017, BHSF received approximately \$305,000 and \$30,772,000, respectively, related to favorable settlements of outstanding disputes with third-party payors. Third-party payor settlements are recorded as an increase to net patient service revenue when the disputes are settled and the cash settlements are received. During the year ended September 30, 2018, BHSF recorded an increase to net patient service revenue of approximately \$4,738,000 due to Medicaid historical rate adjustments for prior years. BHSF did not have such Medicaid rate adjustments recorded for the year ended September 30, 2017. For fiscal years 2018 and 2017, the state of Florida revised the methodology for distributing Low Income Pool ("LIP") funds. LIP funds are intended to compensate hospitals with significant levels of uncompensated care. BHSF Hospitals received a total of approximately \$8,270,000 in fiscal year 2018 relating to LIP. Homestead and Mariners Hospitals received a total of approximately \$28,537,000 in fiscal year 2017. Those amounts were recognized in net patient service revenue for the years ended September 30, 2018 and 2017, respectively.

4. ASSETS WHOSE USE IS LIMITED AND OTHER INVESTMENTS

Assets whose use is limited and other investments at September 30, 2018, are set forth in the following table and stated at fair value:

	<u>Assets Whose Use is Limited</u>	<u>Other Investments</u>	<u>Total</u>
Financial assets:			
Cash and short-term investments	\$190,156,912	\$12,243,966	\$202,400,878
U.S. Treasury obligations	192,100,740	7,150,443	199,251,183
U.S. Agency obligations	61,827,010	2,364,364	64,191,374
Municipal bonds	5,577,978	213,553	5,791,531
Corporate equity instruments	1,414,392,535	58,500,980	1,472,893,515
Corporate bonds	499,778,090	19,122,246	518,900,336
Foreign government bonds	206,135,493	8,008,141	214,143,634
Foreign corporate bonds	100,303,081	3,858,695	104,161,776
Foreign exchange contracts	3,614,483	140,044	3,754,527
Global properties securities fund	58,897,108	2,288,089	61,185,197
Infrastructure fund	42,349,758	1,645,242	43,995,000
Private debt fund	64,518,341	2,506,468	67,024,809
Private oil and gas fund	33,986,992	1,320,358	35,307,350
Private real estate funds	152,188,731	5,912,368	158,101,099
Other alternative investments	<u>41,961,457</u>	<u>1,549,748</u>	<u>43,511,205</u>
Total	3,067,788,709	126,824,705	3,194,613,414
Redemption receivable from other alternative investments	<u>21,396,492</u>		<u>21,396,492</u>
Total	<u>\$3,089,185,201</u>	<u>\$126,824,705</u>	<u>\$3,216,009,906</u>

Assets whose use is limited and other investments at September 30, 2017, are set forth in the following table and stated at fair value:

	<u>Assets Whose Use is Limited</u>	<u>Other Investments</u>	<u>Total</u>
Financial assets:			
Cash and short-term investments	\$90,145,858	\$2,573,558	\$92,719,416
U.S. Treasury obligations	148,062,823	3,855,441	151,918,264
U.S. Agency obligations	88,746,528	2,349,774	91,096,302
Municipal bonds	6,830,718	180,821	7,011,539
Corporate equity instruments	1,369,684,303	39,822,096	1,409,506,399
Corporate bonds	528,823,600	13,968,308	542,791,908
Foreign government bonds	184,298,940	4,939,113	189,238,053
Foreign corporate bonds	91,328,817	2,429,748	93,758,565
Foreign exchange contracts	1,917,175	51,379	1,968,554
Global properties securities fund	55,958,785	1,499,666	57,458,451
Infrastructure fund	44,183,853	1,184,104	45,367,957
Private debt fund	65,577,332	1,757,437	67,334,769
Private real estate funds	120,229,160	3,222,077	123,451,237
Total	<u>\$2,795,787,892</u>	<u>\$77,833,522</u>	<u>\$2,873,621,414</u>

Other investments represent assets of the Foundation. At September 30, 2018 and 2017, other investments in the amount of approximately \$56,197,000 and \$38,305,000, respectively, were temporarily restricted as to use by donors, and approximately \$14,611,000 and \$12,939,000, respectively, were permanently restricted as to use by donors.

The following is the composition of assets whose use is limited at September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Board designated for:		
Funded depreciation	\$2,763,741,207	\$2,501,488,602
Education	335,043	335,043
Total Board designated	2,764,076,250	2,501,823,645
Unspent note proceeds	282,298,004	264,171,550
Insurance reserves	42,810,947	29,792,697
Total	3,089,185,201	2,795,787,892
Less amount required for current liabilities	<u>(50,335,043)</u>	<u>(50,335,043)</u>
Assets whose use is limited	<u>\$3,038,850,158</u>	<u>\$2,745,452,849</u>

Unspent note proceeds as of September 30, 2018 and 2017, represent \$282,298,004 and \$263,948,822; respectively, of invested proceeds, inclusive of net realized and unrealized gains, from the 2017 Taxable Notes issuance (see Note 7).

Investment income and gains and losses for assets whose use is limited, other investments and cash and cash equivalents are comprised of the following for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment income:		
Interest and dividends income	\$59,672,741	\$57,038,761
Realized gains on sales of securities	287,021,363	189,568,603
Realized losses on sales of securities	(101,000,607)	(102,774,088)
Change in net unrealized gains and losses	<u>(28,578,369)</u>	<u>151,211,678</u>
Investment income	<u>\$217,115,128</u>	<u>\$295,044,954</u>
Other changes in temporarily restricted net assets:		
Investment income	\$1,274,996	\$158,224
Realized income on investments - net	<u>530,947</u>	<u>65,944</u>
Total	<u>\$1,805,943</u>	<u>\$224,168</u>

5. PROPERTY AND EQUIPMENT - NET

Property and equipment at September 30, 2018 and 2017, are summarized as follows:

	<u>2018</u>	<u>2017</u>
Land and land improvements	\$424,608,221	\$336,971,301
Buildings and improvements	1,893,046,863	1,663,435,000
Equipment	976,425,636	851,487,626
Software and licenses	<u>258,333,771</u>	<u>237,277,011</u>
Total	3,552,414,491	3,089,170,938
Less accumulated depreciation	<u>(1,546,027,578)</u>	<u>(1,382,522,995)</u>
Total	2,006,386,913	1,706,647,943
Construction in progress	<u>197,588,161</u>	<u>172,754,704</u>
Property and equipment - net	<u>\$2,203,975,074</u>	<u>\$1,879,402,647</u>

Interest costs incurred during fiscal years 2018 and 2017 were approximately \$58,885,000 and \$54,011,000, respectively. Interest capitalized was approximately \$2,618,000 and \$5,583,000, during fiscal years 2018 and 2017, respectively. Depreciation expense on property and equipment, for the years ended September 30, 2018 and 2017, amounted to approximately \$194,206,000 and \$160,764,000, respectively.

During fiscal years 2018 and 2017, BHSF and certain BHSF Hospitals made several building and land purchases with a total cost of approximately \$18,658,000 and \$18,650,000, respectively. These acquisitions are for use in BHSF's clinical and administrative operations.

In the first quarter of fiscal year 2017, construction was completed of a new outpatient facility on the Baptist Hospital campus as part of the MCI. Construction was completed on the research facility, also on the Baptist Hospital campus and part of MCI, in November 2017. The total cost of these facilities is approximately \$432,366,000 and was partially funded with the 2011 Taxable Notes and unrestricted cash (see Note 7).

As of September 30, 2018 and 2017, BHSF has accrued approximately \$38,037,000 and \$14,468,000, respectively, for the acquisition and construction of property and equipment. These amounts are included in accounts payable and accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

6. GOODWILL

Goodwill is subject to at least an annual assessment for impairment by applying a fair-value based test. BHSF performs an annual impairment test during the fourth quarter of each fiscal year or more frequently, when events or other changes in circumstances indicate that the carrying value of goodwill may not be recoverable. During the fourth quarter of September 30, 2018, BHSF performed its annual goodwill impairment test and concluded there was no impairment of goodwill.

A summary of the changes in goodwill at September 30, 2018 and 2017, is listed below:

	<u>2018</u>	<u>2017</u>
Goodwill, beginning of year	\$72,507,450	\$52,587,743
Ambulatory surgery center acquisitions and purchase price adjustments	4,915,521	16,003,056
Acquisition of assets relating to Fishermen's Hospital and purchase price adjustments	<u>17,072</u>	<u>3,916,651</u>
Goodwill, end of year	<u>\$77,440,043</u>	<u>\$72,507,450</u>

7. DEBT

On May 16, 2007, the BHSF Obligated Group issued through the City of South Miami Health Facilities Authority \$800,000,000 of its Hospital Revenue Bonds, Series 2007 ("2007 Bonds") in accordance with the provisions of a new Master Trust Indenture dated as of May 1, 2007. The 2007 Bonds issued at interest rates ranging from 4.62% to 5.00%, payable semiannually each February 15 and August 15, and matured annually on August 15 through 2042. The 2007 Bonds became callable at par by BHSF on August 15, 2017. Payment of principal and interest on the 2007 Bonds was wholly dependent on the credit of the BHSF Obligated Group. Certain proceeds of the 2007 Bonds, together with other available funds, were used to refund outstanding bonds and pay expenses incurred in connection with the issuance of the 2007 Bonds; and the remaining proceeds were used to acquire, construct, renovate, rehabilitate and equip certain healthcare facilities of the BHSF Obligated Group. The 2007 Bonds were refunded on December 28, 2017, and are no longer outstanding.

On April 1, 2010, Bethesda Health issued \$130,000,000 of Palm Beach County Health Facilities Health Authority ("PBCHFA") Facilities Revenue Bonds, Series 2010A ("2010A Bonds"), which were limited obligations of the PBCHFA (the Issuer), payable solely from and secured by payments to be made under a Loan Agreement, dated as of April 1, 2010. On April 23, 2010, Bethesda Health issued Series 2010B Bonds for the purpose of financing a portion of a construction project to build a new 80-bed hospital in the western Boynton Beach community. The Series 2010B Bonds were issued in the aggregate principal amount of \$85,000,000 and privately placed with Branch Banking and Trust Company. As a result of the affiliation, certain entities of Bethesda Health became part of the BHSF Obligated Group and the existing Bethesda Master Trust Indenture was terminated. At the same time, all of Bethesda Health's then outstanding debt under the Bethesda Master Trust Indenture was transferred to and secured under the BHSF Obligated Group Master Indenture. Beginning October 1, 2017, all of the covenants under the Bethesda Health Master Trust Indenture no longer apply to Bethesda Health. The 2010A Bonds and 2010B Bonds were refunded on December 28, 2017, and are no longer outstanding.

On May 25, 2011, the BHSF Obligated Group issued \$250,000,000 of its Baptist Health South Florida Obligated Group Taxable Notes, Series 2011 (the "2011 Taxable Notes"). The 2011 Taxable Notes were issued under the Master Trust Indenture, as amended and supplemented by a First Supplemental Master Trust Indenture. The 2011 Taxable Notes bear interest at 4.59% per annum, payable annually on August 15, and mature on August 15, 2021. Proceeds of the 2011 Taxable Notes may be used for any corporate purposes; however, BHSF has designated and used the proceeds to construct and equip the new MCI facilities on the campus of Baptist Hospital.

On December 21, 2011, the BHSF Obligated Group implemented a commercial paper program that allows BHSF to issue up to \$150,000,000 of taxable commercial paper notes for general corporate purposes at an interest rate to be determined at the time of the commercial paper notes issuance. The commercial paper program was issued under the Master Trust Indenture, as amended and supplemented by a Second Supplemental Master Trust Indenture. As of September 30, 2018, notes totaling \$50,000,000 have been issued and are outstanding; the notes bear interest rates of 2.07% and 2.15% per annum, with maturity dates of October 10, 2018, and November 16, 2018; these commercial paper notes were subsequently reissued in fiscal year 2019 (see Note 18).

On January 9, 2017, the BHSF Obligated Group issued \$250,000,000 of its Baptist Health South Florida Obligated Group Taxable Notes, Series 2017 (the "2017 Taxable Notes"). The 2017 Taxable Notes were issued under the Master Trust Indenture, as amended and restated by a Third Supplemental Master Trust Indenture. The 2017 Taxable Notes bear interest at 4.34% per annum, payable annually on November 15, and will mature on November 15, 2041. Proceeds of the 2017 Taxable Notes may be used for any corporate purposes.

On December 28, 2017, the BHSF Obligated Group issued through the City of South Miami Health Facilities Authority \$809,565,000 of its Hospital Refunding Revenue Bonds, Series 2017 ("2017 Bonds") in accordance with the provisions of the Fifth Supplemental Master Trust Indenture dated as of December 1, 2017. The 2017 Bonds bear interest at rates ranging from 3.00% to 5.00%, payable semiannually each February 15 and August 15, and mature annually on August 15 through 2047. Payment of principal and interest on the 2017 Bonds is wholly dependent on the credit of the BHSF Obligated Group. Proceeds of the 2017 Bonds, together with other available funds, were used to refund outstanding bonds and pay issue costs incurred in connection with the issuance of the 2017 Bonds. BHSF recognized a gain from extinguishment of approximately

\$1,455,000 from the refunding of outstanding bonds recorded as other income in the consolidated statement of operations as of September 30, 2018.

Under the Master Trust Indentures, the BHSF Obligated Group has certain restrictions on incurrence of additional debt and certain other covenants. As of September 30, 2018, the BHSF Obligated Group was in compliance with all of its financial debt covenants.

A summary of debt at September 30, 2018 and 2017, is as follows:

	<u>2018</u>	<u>2017</u>
2017 Tax-Exempt Bonds (net of unaccreted bond premium - 2018: \$81,638,138, and deferred issue costs - 2018: \$5,684,313)	\$871,383,825	
2007 Tax-Exempt Bonds (net of unaccreted bond premium - 2017: \$10,025,614, and deferred issue costs - 2017: \$2,694,867)		\$695,275,747
2011 Taxable Notes (net of deferred issue costs - 2018: \$522,723; 2017: \$698,859)	249,477,277	249,301,141
2017 Taxable Notes (net of deferred issue costs - 2018: \$1,987,978; 2017: \$2,073,790)	248,012,022	247,926,210
Commercial paper notes (including unamortized discount: 2018 - \$73,389; 2017 - \$29,750)	<u>50,000,000</u>	<u>50,000,000</u>
Total	1,418,873,124	1,242,503,098
Amount representing current maturities	<u>(63,090,000)</u>	<u>(64,510,000)</u>
Long-term debt	<u>\$1,355,783,124</u>	<u>\$1,177,993,098</u>

At September 30, 2018, the scheduled principal payments on long-term debt for the next five years and thereafter are as follows:

<u>Year ending September 30</u>	<u>Revenue Bonds</u>	<u>Taxable Notes</u>	<u>Commercial Paper</u>	<u>Total</u>
2019	\$13,090,000		\$50,000,000	\$63,090,000
2020	13,750,000			13,750,000
2021	14,435,000	\$250,000,000		264,435,000
2022	15,155,000			15,155,000
2023	15,915,000			15,915,000
Thereafter	<u>723,085,000</u>	<u>250,000,000</u>		<u>973,085,000</u>
Total	<u>\$795,430,000</u>	<u>\$500,000,000</u>	<u>\$50,000,000</u>	<u>\$1,345,430,000</u>

8. CAPITAL LEASE OBLIGATION

On October 14, 2011, Bethesda Health sold a medical office building to an unrelated party for approximately \$36,000,000, resulting in a gain of approximately \$28,000,000. Bethesda Health simultaneously leased back approximately 50% of the rentable square feet of the building for fifteen years resulting in the deferral of approximately \$18,000,000 of the total gain. The lease has been recorded as an \$18,000,000 capital lease payable over fifteen years, and the deferred gain will be recognized on a straight line basis over the same period. In connection with the change of control effective October 1, 2017, Bethesda Health has elected to apply pushdown accounting by applying the guidance in ASC 805 *Business Combinations*. The adjustments for pushdown accounting resulted in a new basis of zero for the capital lease asset.

The following is a schedule of approximate future payments for the next five years and thereafter on capital leases in effect as September 30, 2018:

Year ending	
<u>September 30</u>	
2019	\$2,302,795
2020	2,376,303
2021	2,355,426
2022	2,443,514
2023	2,535,390
Thereafter	8,428,251
	<u>20,441,679</u>
Amount representing interest	<u>(5,772,908)</u>
Total capital lease obligation	<u>\$14,668,771</u>

9. NET ASSETS

A summary of the changes in consolidated unrestricted net assets attributable to BHSF and the noncontrolling interests for the year ended September 30, 2018, is as follows:

	<u>Total</u>	<u>BHSF</u>	<u>Noncontrolling Interests</u>
Balance, beginning of year	\$3,353,145,985	\$3,319,994,650	\$33,151,335
Excess of revenues over expenses	427,676,330	405,584,366	22,091,964
Net assets released from restrictions used for property and equipment acquisitions	2,902,613	2,902,613	
Change in value of split-interest agreements	(458,767)	(458,767)	
Transfers from temporarily restricted net assets	(60,000)	(60,000)	
Change in value of pension liability	6,865,351	6,865,351	
Noncontrolling interest related to surgery centers	4,070,158		4,070,158
Sale of limited partnership interests	794,006		794,006
Purchase of limited partnership interests	(843,746)		(843,746)
Partnership distributions	(22,265,493)		(22,265,493)
Increase in unrestricted net assets	<u>418,680,452</u>	<u>414,833,563</u>	<u>3,846,889</u>
Balance, end of year	<u>\$3,771,826,437</u>	<u>\$3,734,828,213</u>	<u>\$36,998,224</u>

A summary of the changes in consolidated unrestricted net assets attributable to BHSF and the noncontrolling interests for the year ended September 30, 2017, is as follows:

	<u>Total</u>	<u>BHSF</u>	<u>Noncontrolling Interests</u>
Balance, beginning of year	\$3,079,645,654	\$3,064,162,101	\$15,483,553
Excess of revenues over expenses	263,225,070	244,323,987	18,901,083
Net assets released from restrictions used for property and equipment acquisitions	11,625,480	11,625,480	
Change in value of split-interest agreements	(124,379)	(124,379)	
Transfers from temporarily restricted net assets	7,461	7,461	
Noncontrolling interest related to surgery centers	17,459,016		17,459,016
Sale of limited partnership interests	1,154,707		1,154,707
Purchase of limited partnership interests	(697,363)		(697,363)
Partnership distributions	(19,149,661)		(19,149,661)
Increase in unrestricted net assets	<u>273,500,331</u>	<u>255,832,549</u>	<u>17,667,782</u>
Balance, end of year	<u>\$3,353,145,985</u>	<u>\$3,319,994,650</u>	<u>\$33,151,335</u>

Temporarily and permanently restricted net assets are designated for the following purposes at September 30, 2018 and 2017:

	Temporarily Restricted		Permanently Restricted	
	2018	2017	2018	2017
Equipment and building fund	\$52,283,986	\$38,523,351	\$1,296,741	
Indigent care	1,179,966	6,580,713	5,775,972	\$5,921,185
Health education	61,615,471	39,272,610	7,867,619	7,734,621
Total	<u>\$115,079,423</u>	<u>\$84,376,674</u>	<u>\$14,940,332</u>	<u>\$13,655,806</u>

BHSF's endowment consists of funds that have been limited by donors to a specific time period or purpose. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Endowment funds received are included in assets whose use is limited and invested in accordance with BHSF's investment policy. Accumulated gains from these investments are not included in the permanently restricted net assets balance.

All permanently restricted net assets are endowments. Gifts donated to the permanently restricted endowments are classified as permanently restricted net assets at their original fair value. Gifts donated with temporary restrictions are classified as temporarily restricted net assets at their original fair value, until those amounts are appropriated for expenditure by the BHSF Hospitals or BOS in accordance with donors' wishes. Income derived from permanently and temporarily restricted net assets is available to support the BHSF Hospitals, BOS, BHMG, and MCIBH, absent explicit donor stipulations to the contrary.

Changes in endowment net assets for the year ended September 30, 2018, are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Change in endowment net assets:			
Endowments net assets, beginning of year			\$13,655,806
Inherent contribution from affiliation of Bethesda Health	\$16,847,809	\$5,812,108	1,246,741
Contributions			196,005
Investment income	1,221,702	414,947	(122,823)
Amounts used for expenditures		(308,942)	122,823
Amounts written off			(191,218)
Present value allowance adjustments			32,998
Endowment net assets, end of period	<u>\$18,069,511</u>	<u>\$5,918,113</u>	<u>\$14,940,332</u>

Changes in endowment net assets for the year ended September 30, 2017, are as follows:

	Permanently Restricted
Change in endowment net assets:	
Endowments net assets, beginning of year	\$13,160,974
Contributions	522,200
Investment income	200,431
Amounts used for expenditures	(200,431)
Present value allowance adjustments	(27,368)
Endowment net assets, end of period	<u>\$13,655,806</u>

10. MEDICAL MALPRACTICE AND GENERAL LIABILITY INSURANCE

BHSF is self-insured for professional and general liability coverage. Coverage in excess of the self-insurance limits, less coinsurance, is provided on a claims-made basis by PIC, which reinsures 100% of its professional and general liability risk with unrelated commercial insurance carriers. The adequacy of the coverage provided and the provisions for losses are reviewed at least annually by independent actuaries. Should the claims-made policies be terminated, or not renewed or replaced with equivalent insurance, claims based on incidents during their term, but reported subsequently, will be uninsured. At September 30, 2018 and 2017, BHSF has accrued undiscounted estimates of approximately \$248,232,000 and \$180,924,000, respectively, which represents the cost to settle malpractice and general liability claims reported and claims incurred but not reported. Approximately \$69,231,000 and \$43,245,000 is included in accrued expenses and other current

liabilities, and approximately \$179,001,000 and \$137,678,000 is included in other liabilities, in the accompanying consolidated balance sheets at September 30, 2018 and 2017, respectively.

The fiscal year 2018 and 2017 consolidated statements of operations reflect a change in estimate reducing the accrued undiscounted cost to settle malpractice and general liability claims of approximately \$12,239,000 and \$11,660,000, respectively, primarily due to favorable development and settlement of historical outstanding claims.

11. EMPLOYEE BENEFITS PROGRAMS

BHSF subsidizes the cost of health insurance for its employees through a self-insured employee health plan. Under the self-insurance plan, all claims from employees and their covered dependents, less deductibles and coinsurance, as provided in the plan, are paid directly by BHSF to the plan administrators. BHSF has commercial insurance coverage for per-occurrence claims in excess of the self-insured limits. At September 30, 2018 and 2017, BHSF has recorded liabilities for outstanding and estimated unreported claims of its employees and their covered dependents under this plan of approximately \$19,671,000 and \$22,179,000, respectively, which are included in accrued wages, salaries and benefits in the accompanying consolidated balance sheets.

BHSF is self-insured for workers' compensation claims. BHSF purchases commercial insurance coverage for per-occurrence workers' compensation claims in excess of the self-insured limit. As of September 30, 2018 and 2017, BHSF has recorded liabilities for outstanding and estimated unreported claims covered under this plan of approximately \$9,199,000 and \$6,475,000, respectively, which are included in accrued expenses and other current liabilities in the accompanying consolidated balance sheets.

12. RETIREMENT PLAN

BHSF, excluding Bethesda Health, sponsors a defined contribution retirement plan (the "Plan") in which participation is available to substantially all full-time employees. Under the terms of the Plan, BHSF provides a basic contribution of 3% of the employee's gross salary. In addition, BHSF matches 50% of the amount the participating employee has contributed through a voluntary salary reduction agreement with BHSF. The maximum matching contribution is limited to 2% of the employee's gross salary. Provisions of the Plan include 100% vesting of BHSF contributions after three years of continuous service. Upon a participant's retirement, death or disability, or as required by law, the participant's vested interest in his or her account can be distributed in either a lump-sum amount equal to the value of the participant's vested interest in his or her account or annual installments over the life expectancy of the participant. The funding levels for the Plan are subject to periodic determination by the Board of Trustees of BHSF. Costs incurred in connection with the Plan, for the years ended September 30, 2018 and 2017, were approximately \$49,393,000 and \$44,547,000, respectively, and are included in wages, salaries and benefits expense in the accompanying consolidated statements of operations.

Bethesda Health participates in a noncontributory DBP, covering substantially all of their qualified employees. The benefits are based on years of service and employees' compensation levels and are calculated using the projected unit credit actuarial cost method. Bethesda Health's current funding policy is to contribute annual amounts that meet the requirements of IRC Section 412 for minimum funding and the requirements for IRC Section 404 with regard to maximum contribution limitations. Annual contributions to the DBP equal the amount accrued for pension expense. Contributions of \$7,200,000 were paid to the DBP during the fiscal year ended September 30, 2018.

Bethesda Health follows the provision of ASC Topic 715, *Compensation-Retirement Benefits*. ASC Topic 715 requires the recognition of the funded status (the difference between the fair value of plan assets and the projected benefit obligations) of its DBP in the accompanying consolidated balance sheet, with a corresponding adjustment to unrestricted net assets. At September 30, 2018, the DBP was underfunded by \$17,109,000, which is included in other liabilities in the accompanying condensed consolidated balance sheets. Actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic pension cost in the same periods will be recognized as a component of unrestricted net assets. Those amounts will be subsequently recognized as a component of net periodic pension cost on the same basis as the amounts recognized in unrestricted net assets.

Included in unrestricted net assets at September 30, 2018, were unrecognized actuarial losses of \$35,775,000. These amounts have not yet been recognized in net periodic pension cost. The actuarial loss included in unrestricted net assets and expected to be recognized in net periodic pension cost during the year ending September 30, 2019, is \$1,499,000.

On September 21, 2014, Bethesda Health approved a freeze of the DBP and will cease all future benefit accruals effective September 30, 2018. Participants of the DBP will then be eligible for the defined contribution plan noted below.

Bethesda Health has established a defined contribution plan, which is available for eligible employees hired on or after October 1, 2005. The defined contribution plan was established to provide benefits for employees of the sponsor and is subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended. Costs incurred in connection with the defined contribution plan for the year ended September 30, 2018, was approximately \$1,367,000 and is included in wages, salaries and benefits expense in the accompanying consolidated statements of operations.

The following table sets forth the DBP's funded status and amounts recognized in BHSF's consolidated financial statements:

	<u>2018</u>
Change in benefit obligation:	
Benefit obligation, beginning of year	\$259,469,000
Service cost	5,554,000
Interest cost	10,109,000
Actuarial gain	(10,293,000)
Settlement gain	<u>(45,136,000)</u>
Benefit obligation, end of year	<u>219,703,000</u>
Change in plan assets:	
Fair value of plan assets at beginning of year	236,673,000
Actual return on plan assets	4,251,000
Employer contributions	7,200,000
Expenses paid	(394,000)
Participants benefits paid - net	<u>(45,136,000)</u>
Fair value of plan assets, end of year	<u>202,594,000</u>
Funded status of plan:	<u><u>(\$17,109,000)</u></u>

Amounts recognized in the consolidated balance sheets consist of the following:

	<u>2018</u>
Accrued pension liability	(\$17,109,000)
Accumulated actuarial loss in unrestricted net assets	\$35,775,000

Changes recognized in unrestricted net assets during 2018 is as follows:

	<u>2018</u>
Net loss	\$1,043,000
Amortization of net loss	<u>(7,908,000)</u>
	<u><u>(\$6,865,000)</u></u>

The accumulated benefit obligation as of September 30, 2018 was \$219,703,000.

Estimated future benefit payments at September 30, 2018, are as follows:

<u>Year ending</u> <u>September 30</u>	
2019	\$9,099,000
2020	9,677,000
2021	10,306,000
2022	10,872,000
2023	11,382,000
2024 - 2028	<u>62,781,000</u>
	<u><u>\$114,117,000</u></u>

Net pension cost includes the following components:

	<u>2018</u>
Service cost	\$5,554,000
Interest cost	10,109,000
Settlement expense	5,895,000
Expected return on plan assets	(15,191,000)
Amortization of unrecognized net assets	<u>2,012,000</u>
Total net pension costs	<u>\$8,379,000</u>

The following assumptions were used to determine the benefit obligation and net benefit cost with a measurement date of September 30, 2018:

	<u>2018</u>
Benefit obligation:	
Discount rate	4.3%
Rate of compensation increase	3.5%
Net benefit cost:	
Discount rate	4.4%
Expected return on plan assets	6.8%
Rate of compensation increase	3.5%

The weighted-average expected long-term rate of return on the DBP assets is based upon historical financial market relationships that have existed over time with the presumption that this trend will generally remain constant in the future.

Bethesda Health has examined historical benchmarks for returns in each asset in its portfolio and based on the target asset mix has developed a weighted-average expected return for the portfolio as a whole of 6.8%, taking into consideration forecasts of long-term expected inflation rates.

DBP assets are administered by a trustee and invested principally in cash and cash equivalents, corporate bonds, and marketable equity securities. The primary investment objective of the DBP is to achieve long-term objectives return, while mitigating against downside risk and considering expected cash flows. Based on an assessment of its long-term goals and desired risk levels, the investment policy statement approved in January 2017 includes a guide path that adjusts the target allocation as the DBP's funded status changes. The following table sets forth the target allocation percentages aligning to the DBP's funded status as of September 30, 2018:

	<u>2018</u>
Asset class:	
Real estate	4.0%
Debt securities	70.0%
Equity and international securities	25.0%

Rebalancing is executed when changes in market value occur and results allocations being outside of a pre-specific range. The following table sets forth the percentage of the fair value of each major category of the DBP assets to total DBP assets as of September 30, 2018:

	<u>2018</u>
Short-term, interest-bearing accounts	1.0%
Investment funds:	
Real estate	4.0%
Debt securities	70.0%
Equity and international securities	25.0%

The table below summarizes the estimated fair values of the DBP's assets by major category and by the three levels of inputs that may be used to determine fair value as defined in Note 17 as of September 30, 2018:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	\$2,990,000		\$2,990,000		\$2,990,000
Common collective trusts				\$199,604,000	199,604,000
Total	<u>\$2,990,000</u>	<u>\$0</u>	<u>\$2,990,000</u>	<u>\$199,604,000</u>	<u>\$202,594,000</u>

Investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table for such investments are intended to permit reconciliation of the fair value hierarchy to the investments at fair value line item presented in the consolidated balance sheet.

The DBP invests in common collective trusts consisting of domestic, international, emerging market, and corporate bond equity funds.

The following is a schedule of additional information regarding the DBP investments measured at net asset value as of September 30, 2018:

	September 30, 2018		
	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Real estate	\$7,200,000	Daily	Trade date minus two days
Common equity securities	\$49,631,000	Daily	Trade date minus two days
Corporate bonds	\$142,773,000	Daily	Trade date minus two days

As of September 30, 2018, there were no unfunded commitments.

13. INCOME TAXES

The components of the income tax provision for the years ended September 30, 2018 and 2017, are as follows:

	2018	2017
Current income tax provision:		
Federal	\$1,591,241	\$742,965
State	17,785	(61,953)
Total current income tax provision	<u>1,609,026</u>	<u>681,012</u>
Deferred income taxes:		
Federal	(1,254,148)	(100,432)
State	(95,514)	(58,676)
Total deferred income taxes	<u>(1,349,662)</u>	<u>(159,108)</u>
Income tax provision	<u>\$259,364</u>	<u>\$521,904</u>

Deferred income taxes, at September 30, 2018 and 2017, are provided for the temporary differences between the tax bases of the assets and liabilities of BHE and Insurance Companies and their bases for financial reporting purposes.

The tax effects of temporary differences are as follows:

	<u>2018</u>	<u>2017</u>
Current deferred tax (liabilities) assets:		
Unrealized gains	(\$798,286)	(\$1,122,310)
Realized losses	8,546	723
Other current assets	1,060,304	1,439,256
Accrued liabilities and other	<u>10,225</u>	<u>32,008</u>
Total net current deferred tax assets	<u>280,789</u>	<u>349,677</u>
Non-current deferred tax assets (liabilities):		
Depreciation	904,507	1,296,973
Net unearned premiums	268,526	451,912
Loss and loss adjustment	99,175	175,667
Investment in unconsolidated subsidiaries	(3,492,996)	(4,386,136)
Net operating loss carryforward	1,384,154	312,264
Installment gain	<u>(219,299)</u>	<u>(325,163)</u>
Total net non-current deferred tax liabilities	<u>(1,055,933)</u>	<u>(2,474,483)</u>
Total net deferred tax liabilities	<u><u>(\$775,144)</u></u>	<u><u>(\$2,124,806)</u></u>

The current accounting standards require that deferred income taxes reflect the tax consequences on future years of differences between the tax bases of assets and liabilities and their bases for financial reporting purposes. ASC 740-10, *Accounting for Uncertainty in Income Taxes* (formerly FIN48), prescribes a comprehensive model for how an organization should measure, recognize, present, and disclose in its financial statements uncertain tax positions that an organization has taken or expects to take on a tax return. Future tax benefits, such as minimum tax credit carry forwards, are required to be recognized to the extent that realization of such benefits is more likely than not. As of September 30, 2018 and 2017, BHSF had no material unrecognized tax positions which are expected to remain unchanged through September 30, 2019.

On December 22, 2017, the United States Congress enacted the Tax Cuts and Jobs Act (“Tax Act”). The Tax Act made significant modifications to the provisions of the Internal Revenue Code, including but not limited to a U.S. corporate tax rate decrease to a flat 21% rate effective January 1, 2018. BHSF deferred tax assets and liabilities were revalued at the newly enacted U.S. corporate tax rate and the current income tax provision has been recognized for our for-profit and not-for-profit corporations using a blended tax rate for fiscal year ending September 30, 2018. At September 30, 2018, BHE had a federal and state net operating loss carryforward, all of which is available to reduce future income taxes.

BHSF is periodically audited by federal and state taxing authorities. The outcome of these audits may result in BHSF being assessed taxes in addition to amounts previously paid. Federal returns for fiscal years 2015 through 2017 remain open and subject to examination by the Internal Revenue Service.

14. LEASE AGREEMENTS

BHSF and its affiliates have lease agreements that provide for terms of five to twenty years and for renewals at rents to be negotiated. Rents are adjusted annually for changes in the Consumer Price Index (“CPI”).

The following is a schedule of the approximate minimum future rental revenue for the next five years and thereafter on non-cancelable leases in effect at September 30, 2018:

Year ending	
<u>September 30</u>	
2019	\$9,109,000
2020	6,489,000
2021	4,548,000
2022	2,841,000
2023	2,199,000
Thereafter	<u>7,061,000</u>
Total	<u><u>\$32,247,000</u></u>

15. COMMITMENTS AND CONTINGENCIES

Construction - BHSF has made certain commitments associated with its continuous construction programs. BHSF's future construction expenditures related to these commitments in years subsequent to 2018 are estimated at \$192,624,000. Actual construction expenditures may vary from these estimates.

Information Technology and Other Purchase Commitments - BHSF has made certain commitments for various information technology products and services, as well as other equipment and services. These expenditures are payable up to ten years subsequent to 2018 and are estimated at \$214,849,000. Actual expenditures may vary from these estimates.

Operating Leases - BHSF's operating leases are primarily related to its copy machines, miscellaneous medical equipment, and parking and office space. Copy machine and miscellaneous medical equipment leases are subject to automatic renewal at the end of their respective lease terms for successive one-year periods under renegotiated terms and conditions. BHSF leases parking and office space under agreements that provide for terms of three to thirty years and renewals at rates to be negotiated. Office space rents are adjusted annually for changes in the CPI. Total lease expenses charged to operations for the years ended September 30, 2018 and 2017, amounted to approximately \$31,319,000 and \$18,567,000, respectively.

The following is a schedule of the approximate minimum future rental payments for the next five years and thereafter on non-cancelable leases in effect at September 30, 2018:

<u>Year ending</u> <u>September 30</u>	
2019	\$21,884,000
2020	17,959,000
2021	14,536,000
2022	12,915,000
2023	11,855,000
Thereafter	29,259,000
Total	<u>\$108,408,000</u>

Physician Income Guarantees - Baptist Hospital, Homestead Hospital, Mariners Hospital, South Miami Hospital and West Kendall Baptist Hospital provide income and revenue guarantee agreements to certain non-employed physicians and physician groups who agree to fill a community need in the hospitals' service areas and commit to remain in practice there for a specified period of time. Under such agreements, the hospitals are required to make payments to the physicians and physician groups in excess of the amounts earned or revenue collected in their practices up to the amount of the guarantees. The income and revenue collection guarantee agreements in effect at September 30, 2018, expire at various times through September 30, 2021.

At September 30, 2018, the maximum potential amount of future payments under the income and revenue collection guarantees was \$59,982,000. At September 30, 2018, a liability for future payments under the income and revenue collection guarantees in the amount of \$46,954,000 is included in accrued expenses and other current liabilities and other liabilities in the accompanying consolidated balance sheet.

Litigation - BHSF is subject to claims and suits, including malpractice allegations, arising in the ordinary course of business. It is management's opinion, based on consultation with legal counsel and prior experience with similar cases, that the ultimate resolution of such suits now pending will not have a material adverse effect on BHSF's future financial position, results from consolidated operations or its cash flows.

Other Matters - Since 2013, the United States Department of Justice ("USDOJ") has been investigating a non-employed physician who had privileges at South Miami Hospital, Inc. In July 2015, the USDOJ informed South Miami Hospital, Inc., that it also is being investigated with respect to the hospital's conduct in this matter. South Miami Hospital, Inc., and BHSF are cooperating with this investigation and complying with applicable investigative requests, including grand jury subpoenas. At this time, BHSF cannot predict when the above-noted matter will be resolved, any estimated loss or range of loss to BHSF in connection with it, or what impact, if any, it might have on BHSF's consolidated financial position, results of operations or cash flows.

BHSF identified a matter that resulted in certain of its hospitals being out of compliance with the 340B drug pricing program (“340B program”) for the period from August 2013 through January 2017 for Baptist Hospital, and from August 2013 through March 2017 for Doctors Hospital, South Miami Hospital, and Homestead Hospital. In May 2017, BHSF self-disclosed this issue to the US Health Resources & Services Administration (“HRSA”). The self-disclosures as to Doctors Hospital, South Miami Hospital and Homestead Hospital were closed by HRSA in October 2018. The self-disclosure as to Baptist Hospital was incorporated by HRSA into an audit of Baptist Hospital’s 340B Program, which concluded with a final audit report issued by HRSA in November 2017. As a result of the HRSA audit, Baptist Hospital is required to contact certain drug manufacturers to address matters identified in the HRSA audit, which may include repayments to drug manufacturers from which Baptist Hospital purchased drugs. At this time BHSF cannot predict the number of manufacturers who may request repayments related to the audit findings, any estimated loss or range of loss to BHSF in connection with the audit, or what impact, if any, the audit might have on BHSF’s consolidated financial position, results of operations or cash flows.

Other Industry Risks - The healthcare industry is subject to numerous laws and regulations of federal, state and local governments, which are complex and subject to interpretation. Compliance with these laws and regulations, including those relating to the Medicare and Medicaid programs, can be subject to governmental review and interpretation. Federal government activity has increased with respect to investigations and allegations concerning possible violations of laws and regulations by healthcare providers. Unfavorable outcomes related to these regulatory investigations could result in the imposition of significant monetary fines, and civil and criminal penalties, as well as significant repayments of previously billed and collected revenue from patient services, and exclusion from participation in the Medicare and Medicaid programs. Currently, as a result of a government review, South Miami Hospital is operating under a Corporate Integrity Agreement entered into with the Department of Health and Human Services Office of the Inspector General that is in place until December 5, 2021.

16. FUNCTIONAL EXPENSES

BHSF provides general healthcare services to residents within its geographic location. Expenses related to providing these services during the years ended September 30, 2018 and 2017, are as follows:

	2018	2017
Healthcare services	\$1,976,322,729	\$1,628,447,488
Other operating expenses	1,046,801,128	882,652,517
Total	<u>\$3,023,123,857</u>	<u>\$2,511,100,005</u>

17. FAIR VALUE MEASUREMENTS

Assets Whose Use is Limited and Other Investments - BHSF has elected the fair value option for all investments in debt and equity securities. BHSF classifies investments according to a hierarchy of techniques used to determine fair value based on the types of inputs.

Level 1 inputs are unadjusted quoted market prices in active markets for identical assets or liabilities that are available as of the measuring date. Securities in this category are primarily cash and short-term investments, U.S. Treasury obligations, corporate equity instruments and foreign exchange contracts.

Level 2 inputs are quoted prices in markets that are not active or inputs that are observable either directly or indirectly. Level 2 inputs include quoted prices for similar assets other than quoted prices in Level 1 or other inputs that are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities. Investments classified as Level 2 primarily include debt securities such as U.S. Agency obligations, municipal bonds, domestic and foreign corporate bonds and foreign government bonds. BHSF’s bank custodians use independent pricing services to provide fair values for these securities. These pricing services use the market and income approaches and utilize pricing models that vary by asset class and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, these pricing services utilize available information through processes such as benchmark curves, benchmarking of like securities, sector groupings and matrix pricing. As of September 30, 2018 and 2017, BHSF has recorded the valuations, without adjustment, which were provided by the pricing service.

Level 3 inputs are unobservable inputs that are supported by little or no market activity and are significant to the fair value of the asset or liability. Unobservable inputs reflect BHSF’s own judgment about the assumptions that market participants would use in pricing the asset or liability. Level 3 assets and liabilities include financial instruments for which fair values are determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Transfers between levels occur when there are changes in the determination of whether inputs are observable or not, and changes in market activity. There were no changes to level classifications for securities held at September 30, 2017.

Alternative investments measured at fair value using net asset value (“NAV”) per share, or its equivalent, as a practical expedient have not been classified in the fair value hierarchy as a result of adopting ASU 2015-07. The fair value amounts presented for such investments are intended to permit reconciliation of the fair value hierarchy to the investments presented in the consolidated balance sheet.

The disclosure of fair value measurements as of September 30, 2018, is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	\$202,400,878		\$202,400,878		\$202,400,878
U.S. Treasury obligations	175,553,995	\$23,697,188	199,251,183		199,251,183
U.S. Agency obligations		64,191,374	64,191,374		64,191,374
Municipal bonds		5,791,531	5,791,531		5,791,531
Corporate equity instruments	1,472,893,515		1,472,893,515		1,472,893,515
Corporate bonds		518,900,336	518,900,336		518,900,336
Foreign government bonds		214,143,634	214,143,634		214,143,634
Foreign corporate bonds		104,161,776	104,161,776		104,161,776
Foreign exchange contracts	3,754,527		3,754,527		3,754,527
Global properties securities fund				\$61,185,197	61,185,197
Infrastructure fund				43,995,000	43,995,000
Private debt fund				67,024,809	67,024,809
Private real estate funds				158,101,099	158,101,099
Private oil and gas fund				35,307,350	35,307,350
Other alternative investments				43,511,205	43,511,205
Redemption receivable from other alternative investments				21,396,492	21,396,492
Total	<u>\$1,854,602,915</u>	<u>\$930,885,839</u>	<u>\$2,785,488,754</u>	<u>\$430,521,152</u>	<u>\$3,216,009,906</u>
Financial liabilities:					
Derivative liabilities	<u>\$6,966,000</u>		<u>\$6,966,000</u>		<u>\$6,966,000</u>

The disclosure of fair value measurements as of September 30, 2017, is as follows:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Investments Measured at Fair Value	Alternative Investments Measured at Net Asset Value	Total
Financial assets:					
Cash and short-term investments	\$92,719,416		\$92,719,416		\$92,719,416
U.S. Treasury obligations	151,918,264		151,918,264		151,918,264
U.S. Agency obligations		\$91,096,302	91,096,302		91,096,302
Municipal bonds		7,011,539	7,011,539		7,011,539
Corporate equity instruments	1,409,506,399		1,409,506,399		1,409,506,399
Corporate bonds		542,791,908	542,791,908		542,791,908
Foreign government bonds		189,238,053	189,238,053		189,238,053
Foreign corporate bonds		93,758,565	93,758,565		93,758,565
Foreign exchange contracts	1,968,554		1,968,554		1,968,554
Global properties securities fund				\$57,458,451	57,458,451
Infrastructure fund				45,367,957	45,367,957
Private debt fund				67,334,769	67,334,769
Private real estate funds				123,451,237	123,451,237
Total	<u>\$1,656,112,633</u>	<u>\$923,896,367</u>	<u>\$2,580,009,000</u>	<u>\$293,612,414</u>	<u>\$2,873,621,414</u>
Financial liabilities:					
Derivative liabilities	<u>\$5,065,000</u>		<u>\$5,065,000</u>		<u>\$5,065,000</u>

BHSF's investment policy provides for a diversified investment portfolio which considers return, risk, social values and BHSF's short-term and long-term liquidity needs, and supports its self-liquidity program. This policy allows participation in alternative investment funds. BHSF's investments in the private debt, infrastructure, private real estate funds, global securities funds, private oil and gas funds, and other alternative funds are considered alternative investments and do not have readily determinable fair values. All of BHSF's alternative investments contain restrictions on an investor's ability to liquidate the investment. All funds may restrict redemptions if, in their respective determinations, it would be in the best interest of the fund to do so. Absent the fund manager's election to restrict, redemptions differ from each fund.

The following is a schedule of additional information regarding the alternative investments held by BHSF that are valued using NAV as the practical expedient to fair value as of the years ended September 30, 2018 and 2017:

	September 30, 2018			
	NAV	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	\$61,185,197		Monthly	15 days
Infrastructure fund	\$43,995,000		Bi-Annually	90 days
Private debt fund	\$67,024,809		Not currently eligible	
Private real estate funds	\$158,101,099	\$29,009,000	Quarterly	One quarter in advance, 30 days in advance
Private oil and gas fund	\$35,307,350	\$22,250,000	Not currently eligible	
Other alternative funds	\$41,441,400	\$35,041,000	Not currently eligible	
Other alternative funds in process of redemption	\$2,069,805		Various	Various over the next 18 months
	September 30, 2017			
	NAV	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Global property securities	\$57,458,451		Monthly	15 days
Infrastructure fund	\$45,367,957		Bi-Annually	90 days
Private debt fund	\$67,334,769		Not currently eligible	
Private real estate funds	\$123,451,237	\$53,950,000	Quarterly	One quarter in advance, 30 days in advance

BHSF has unfunded commitments of \$12,500,000 for additional alternative investments that did not have an NAV as of September 30, 2018.

Debt - The combined estimated fair value of BHSF's outstanding debt at September 30, 2018 and 2017, was \$1,357,324,000 and \$1,221,722,000, respectively (See Note 7). The fair values of the debt are determined using a market pricing approach by using trade data, comparable trades, and other information using observable inputs and are considered Level 2 on the fair value hierarchy.

Other Assets and Liabilities - As of September 30, 2018, BHSF held certain items that are required to be measured at fair value on a recurring basis. Cash and cash equivalents, accounts receivables, other assets, estimated third-party payor settlement, accrued expenses, and other liabilities are reflected in the condensed consolidated balance at their carrying value, which approximate their fair value due to their short maturity.

18. SUBSEQUENT EVENTS

In the first quarter of fiscal year 2019, BHSF repaid its outstanding \$50,000,000 commercial paper notes and reissued notes for \$20,000,000, at a rate varying of 2.45% per annum, with a maturity date of January 10, 2019.

In the first quarter of fiscal year 2019, BHSF received notices for capital calls of approximately \$53,174,000 relating to alternative investment funds which, as of September 30, 2018, had unfunded commitments.

In October 2018, BHSF received \$25,000,000 related to a favorable settlement of an outstanding dispute with a third-party payors.

In November 2018, BHSF submitted redemption notices relating to alternative investments totaling \$25,000,000.

In December 2018, BHSF secured interests in two additional alternative investments. The first is a limited partnership focused on lower middle market stressed and distressed credit with a capital commitment of \$50,000,000. The second is a limited partnership focused on distressed debt with a capital commitment of \$100,000,000.

In December 2018, BHSF and Boca Raton Regional Hospital (“BRRH”) reached an agreement on a non-binding Letter of Intent regarding a strategic partnership between BHSF and BRRH.

BHSF evaluated events and transactions for potential recognition or disclosure through December 21, 2018, the date the consolidated financial statements were issued.

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET INFORMATION
SEPTEMBER 30, 2018

	BHSF Obligated Group				Combined Non-Obligated Group Affiliates	Consolidating Entries	Consolidated
	Baptist Health South Florida, Inc.	BHSF Hospitals	Baptist Outpatient Services, Inc.	Bethesda Health and Related Companies			
ASSETS							
CURRENT ASSETS:							
Cash and cash equivalents	\$111,539,916	\$2,839,324	\$764	\$170,460	\$32,229,181		\$146,779,645
Assets whose use is limited	50,000,000	335,043					50,335,043
Accounts receivable - net	47,740	294,090,905	7,853,143	196,364	19,221,977		321,410,129
Due from affiliates	24,240,174					(\$24,240,174) (2)	0
Other current assets	53,543,420	82,137,868	2,258,160	1,780,733	12,423,111	(292,025)	151,851,267
Total current assets	239,371,250	379,403,140	10,112,067	2,147,557	63,874,269	(24,532,199)	670,376,084
ASSETS WHOSE USE IS LIMITED	2,972,554,534	7,647,910		23,466,297	35,181,417		3,038,850,158
OTHER INVESTMENTS					126,824,705		126,824,705
PROPERTY AND EQUIPMENT - NET	422,911,940	1,567,363,220	38,412,133	43,368,444	131,919,337		2,203,975,074
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	36,759,482	93,477,925	402,088			(130,639,495) (3)	0
GOODWILL		26,481,404			50,958,639		77,440,043
OTHER ASSETS	37,131,496	53,801,133		12,917,824	71,657,925	(29,067,306)	146,441,072
DUE FROM AFFILIATES	1,189,569,566			214,381,225	303,153	(1,404,253,944) (2)	0
NOTE RECEIVABLE - AFFILIATE	2,960,000				1,554,691	(4,514,691) (2)	0
INVESTMENT IN AFFILIATES	779,056,590					(779,056,590) (5)	0
TOTAL ASSETS	\$5,680,314,858	\$2,128,174,732	\$48,926,288	\$296,281,347	\$482,274,136	(\$2,372,064,225)	\$6,263,907,136
LIABILITIES AND NET ASSETS (DEFICIT)							
CURRENT LIABILITIES:							
Accounts payable	\$32,157,794	\$9,284,033		\$5,783,209	\$1,366,125	(\$53,244)	\$48,537,917
Estimated third-party payor settlements		4,317,388					4,317,388
Commercial paper notes	50,000,000						50,000,000
Current maturities of long-term debt		10,133,525 (1)	\$87,925 (1)	2,868,550			13,090,000
Capital lease obligation				1,026,518	98,337		1,124,855
Accrued wages, salaries and benefits	80,910,807	125,013,346	5,728,668	10,249,138	41,565,912		263,467,871
Accrued expenses and other liabilities	49,884,308	264,208,042	7,906,628	9,876,293	45,695,419	(8,598,053)	368,972,637
Due to affiliates		11,842,339			12,397,836	(24,240,175) (2)	0
Total current liabilities	212,952,909	424,798,673	13,723,221	29,803,708	101,123,629	(32,891,472)	749,510,668
LONG-TERM DEBT	248,012,022 (1)	913,919,035 (1)	5,765,106 (1)	188,086,961			1,355,783,124
CAPITAL LEASE OBLIGATION				13,431,629	112,287		13,543,916
OTHER LIABILITIES	4,118,017	197,600,502	2,251,351	17,141,619	22,111,747		243,223,236
NOTE PAYABLE - AFFILIATE		1,554,691			2,960,000	(4,514,691) (2)	0
DUE TO AFFILIATES	1,328,901,185	515,497,483			674,375,235	(2,518,773,903) (2)	0
Total liabilities	1,793,984,133	2,053,370,384	21,739,678	248,463,917	800,682,898	(2,556,180,066)	2,362,060,944
NET ASSETS (DEFICIT):							
Unrestricted:							
Baptist Health South Florida, Inc. and Affiliates	3,809,253,165	(37,374,622)	26,784,522	47,817,430	(588,889,737)	477,237,455 (5)	3,734,828,213
Noncontrolling interests						36,998,224 (4)	36,998,224
Total unrestricted net assets (deficit)	3,809,253,165	(37,374,622)	26,784,522	47,817,430	(588,889,737)	514,235,679	3,771,826,437
Temporarily restricted	63,383,969	98,615,847	402,088		114,911,157	(162,233,638) (3,5)	115,079,423
Permanently restricted	13,693,591	13,563,123			14,940,332	(27,256,714) (3,5)	14,940,332
Total net assets (deficit)	3,886,330,725	74,804,348	27,186,610	47,817,430	(459,038,248)	324,745,327	3,901,846,192
STOCKHOLDER'S EQUITY:							
Capital stock					54,200	(54,200) (5)	0
Additional paid-in-capital					26,123,166	(26,123,166) (5)	0
Retained earnings					77,453,896	(77,453,896) (5)	0
Total stockholder's equity					103,631,262	(103,631,262)	0
Noncontrolling interests					36,998,224	(36,998,224) (4)	0
Total equity					140,629,486	(140,629,486)	0
Total net assets (deficit) and stockholder's equity	3,886,330,725	74,804,348	27,186,610	47,817,430	(318,408,762)	184,115,841	3,901,846,192
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$5,680,314,858	\$2,128,174,732	\$48,926,288	\$296,281,347	\$482,274,136	(\$2,372,064,225)	\$6,263,907,136

Notes:

- (1) The members of the BHSF Obligated Group are jointly and severally liable for the entire amount of the long-term debt issued under the Master Trust Indenture. Long-term debt has been allocated to members of the BHSF Obligated Group based on the use of the proceeds.
- (2) To eliminate intercompany receivables and payables
- (3) To eliminate beneficial interest in net assets of Baptist Health South Florida Foundation, Inc.
- (4) To reclassify noncontrolling interests
- (5) To eliminate equity in income, the investment balance in affiliates and the related retained earnings

BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS INFORMATION
YEAR ENDED SEPTEMBER 30, 2018

	BHSF Obligated Group				Combined Non-Obligated Group Affiliates	Consolidating Entries	Consolidated
	Baptist Health South Florida, Inc.	BHSF Hospitals	Baptist Outpatient Services, Inc.	Bethesda Health and Related Companies			
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:							
Net patient service revenue before provision for doubtful accounts		\$3,010,053,969	\$98,461,653	\$7,403,907	\$209,621,225		\$3,325,540,754
Provision for doubtful accounts		433,111,755	2,446,206	243,436	14,497,196		450,298,593
Net patient service revenue		2,576,942,214	96,015,447	7,160,471	195,124,029		2,875,242,161
Rental revenue	\$5,226,032			5,182,849	15,491,176	(\$12,852,384) (6,7)	13,047,673
Other operating revenue	594,041,133	50,819,801	5,872,270	18,542,609	105,951,333	(678,441,112) (6)	96,786,034
Total unrestricted revenues, gains and other support	599,267,165	2,627,762,015	101,887,717	30,885,929	316,566,538	(691,293,496)	2,985,075,868
EXPENSES:							
Wages, salaries and benefits	289,280,234	1,033,536,211	34,357,260	15,522,568	265,532,935	205,231 (7)	1,638,434,439
Supplies	(2,641,708)	420,733,354	1,904,735	813,233	32,709,821	9,617,496 (6,7)	463,136,931
Malpractice and other insurance	54,783,931	63,149,761	170,475	4,845	23,109,898	(53,541,736) (6)	87,677,174
Administrative and general	202,877,573	813,126,915	50,438,327	20,624,092	140,578,546	(644,250,624) (6,7)	583,394,829
Depreciation and amortization	37,690,261	134,709,919	5,151,916	1,077,462	10,422,122	5,161,216 (7)	194,212,896
Interest	17,276,874	37,476,270	231,796	8,399,724	3,163,022	(10,280,098) (6)	56,267,588
Total expenses	599,267,165	2,502,732,430	92,254,509	46,441,924	475,516,344	(693,088,515)	3,023,123,857
EQUITY IN AFFILIATES	(57,091,357)					57,091,357 (5)	0
(LOSS) INCOME FROM OPERATIONS	(57,091,357)	125,029,585	9,633,208	(15,555,995)	(158,949,806)	58,886,376	(38,047,989)
OTHER INCOME (EXPENSE):							
Investment income:							
Interest on affiliate advances	2,991,523				134,089	(3,125,612) (6)	0
Other investment income	205,656,434	934,125		2,532,797	7,991,772		217,115,128
Gain (loss) on extinguishment of debt		7,165,076	65,071	(5,775,188)			1,454,959
Inherent contribution of unrestricted net assets from affiliation with Bethesda Health	254,137,352						254,137,352
Other (loss) income		(2,163,190)	56	(5,895,398)	4,183	1,330,593 (6,7)	(6,723,756)
Total other income (expense)	462,785,309	5,936,011	65,127	(9,137,789)	8,130,044	(1,795,019)	465,983,683
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE INCOME TAX PROVISION AND NONCONTROLLING INTERESTS	405,693,952	130,965,596	9,698,335	(24,693,784)	(150,819,762)	57,091,357	427,935,694
INCOME TAX PROVISION	109,586	11,531	9,532		128,715		259,364
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) FROM CONSOLIDATED OPERATIONS	405,584,366	130,954,065	9,688,803	(24,693,784)	(150,948,477)	57,091,357	427,676,330
INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS					(22,091,964)		(22,091,964)
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) ATTRIBUTABLE TO BAPTIST HEALTH SOUTH FLORIDA, INC. AND AFFILIATES	\$405,584,366	\$130,954,065	\$9,688,803	(\$24,693,784)	(\$173,040,441)	\$57,091,357	\$405,584,366

Notes:

(5) To eliminate equity in income, the investment balance in affiliates and the related retained earnings

(6) To eliminate intercompany revenue and expense transactions

(7) To reclassify rental income and expense of BHSF Hospitals from other income to income from operations

BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS

SUPPLEMENTAL COMBINING BALANCE SHEET INFORMATION
SEPTEMBER 30, 2018

	Baptist Hospital of Miami, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	Fishermen's Community Hospital, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Bethesda Hospital, Inc.	Combined
ASSETS									
CURRENT ASSETS:									
Cash and cash equivalents	\$49,200	\$7,516	\$4,460	\$2,202	\$1,650	\$12,245	\$4,800	\$2,757,251	\$2,839,324
Assets whose use is limited						335,043			335,043
Accounts receivable - net	141,005,781	17,547,427	15,088,629	4,473,908	1,197,913	53,871,687	18,312,929	42,592,631	294,090,905
Other current assets	26,388,471	3,416,750	11,200,313	2,573,079	573,338	18,129,982	6,029,328	13,826,607	82,137,868
Total current assets	167,443,452	20,971,693	26,293,402	7,049,189	1,772,901	72,348,957	24,347,057	59,176,489	379,403,140
ASSETS WHOSE USE IS LIMITED									
PROPERTY AND EQUIPMENT - NET	793,849,005	126,124,310	31,692,073	24,019,681	10,107,642	231,397,165	184,760,326	165,413,018	1,567,363,220
BENEFICIAL INTEREST IN NET ASSETS OF BAPTIST HEALTH SOUTH FLORIDA FOUNDATION, INC.	47,095,256	10,989,583	4,170,186	8,316,828	4,180,538	17,314,993	1,410,541		93,477,925
GOODWILL		22,547,681				3,933,723			26,481,404
OTHER ASSETS	8,142,861	1,539	1,402,974	708,330	71,253	12,894,578	554,162	30,025,436	53,801,133
TOTAL ASSETS	\$1,016,530,574	\$180,634,806	\$63,558,635	\$40,094,028	\$20,066,057	\$333,955,693	\$211,072,086	\$262,262,853	\$2,128,174,732
LIABILITIES AND NET ASSETS (DEFICIT)									
CURRENT LIABILITIES:									
Accounts payable								\$9,284,033	\$9,284,033
Estimated third-party payor settlements	\$1,062,500	\$1,072,444	\$112,970	\$1,524,641		\$370,723	\$174,110		4,317,388
Current maturities of long-term debt	2,929,088 (1)	1,660,443 (1)	1,714,214 (1)	160,974 (1)		2,096,902 (1)	1,571,904 (1)		10,133,525
Accrued wages, salaries and benefits	55,186,367	9,672,690	12,622,457	3,117,660	\$704,422	26,267,807	10,859,581	6,582,362	125,013,346
Accrued expenses and other liabilities	129,066,958	16,608,262	31,766,350	4,533,561	1,854,571	46,496,483	17,583,840	16,298,017	264,208,042
Due to affiliates		11,842,339							11,842,339
Total current liabilities	188,244,913	40,856,178	46,215,991	9,336,836	2,558,993	75,231,915	30,189,435	32,164,412	424,798,673
LONG-TERM DEBT	441,533,705 (1)	108,873,055 (1)	112,398,696 (1)	10,554,844 (1)		137,491,086 (1)	103,067,649 (1)		913,919,035
OTHER LIABILITIES	61,716,173	11,034,069	23,816,689	2,012,695	472,045	34,170,204	9,944,205	54,434,422	197,600,502
NOTE PAYABLE - AFFILIATE	1,554,691								1,554,691
DUE TO AFFILIATES	303,153		349,604,362		30,566,088		113,844,917	21,178,963	515,497,483
Total liabilities	693,352,635	160,763,302	532,035,738	21,904,375	33,597,126	246,893,205	257,046,206	107,777,797	2,053,370,384
NET ASSETS (DEFICIT):									
Unrestricted	276,082,683	8,881,921	(472,647,289)	9,872,825	(17,711,607)	69,412,452	(47,384,661)	136,119,054	(37,374,622)
Temporarily restricted	44,776,315	10,989,583	4,170,186	6,496,164	4,180,538	9,473,259	1,410,541	17,119,261	98,615,847
Permanently restricted	2,318,941			1,820,664		8,176,777		1,246,741	13,563,123
Total net assets (deficit)	323,177,939	19,871,504	(468,477,103)	18,189,653	(13,531,069)	87,062,488	(45,974,120)	154,485,056	74,804,348
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	\$1,016,530,574	\$180,634,806	\$63,558,635	\$40,094,028	\$20,066,057	\$333,955,693	\$211,072,086	\$262,262,853	\$2,128,174,732

Note:

(1) The members of the BHSF Obligated Group are jointly and severally liable for the entire amount of the long-term debt issued under the Master Trust Indenture. Long-term debt has been allocated to members of the BHSF Obligated Group based on the use of the proceeds.

BAPTIST HEALTH SOUTH FLORIDA, INC. HOSPITALS

SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS INFORMATION
YEAR ENDED SEPTEMBER 30, 2018

	Baptist Hospital of Miami, Inc.	Doctors Hospital, Inc.	Homestead Hospital, Inc.	Mariners Hospital, Inc.	Fishermen's Community Hospital, Inc.	South Miami Hospital, Inc.	West Kendall Baptist Hospital, Inc.	Bethesda Hospital, Inc.	Combining Hospital Entries	Combined
UNRESTRICTED REVENUES, GAINS AND OTHER SUPPORT:										
Net patient service revenue before provision for doubtful accounts	\$1,306,135,091	\$196,899,942	\$281,431,501	\$74,297,364	\$14,598,189	\$551,679,212	\$265,229,743	\$319,782,927		\$3,010,053,969
Provision for doubtful accounts	136,760,998	20,081,640	103,491,961	16,811,224	7,141,283	63,145,563	65,763,739	19,915,347		433,111,755
Net patient service revenue	1,169,374,093	176,818,302	177,939,540	57,486,140	7,456,906	488,533,649	199,466,004	299,867,580		2,576,942,214
Other operating revenue	23,025,293	1,433,523	8,366,450	1,809,079	102,923	5,131,350	3,266,954	9,005,579	(\$1,321,350) (2)	50,819,801
Total unrestricted revenues, gains and other support	1,192,399,386	178,251,825	186,305,990	59,295,219	7,559,829	493,664,999	202,732,958	308,873,159	(1,321,350)	2,627,762,015
EXPENSES:										
Wages, salaries and benefits	416,219,735	71,674,737	97,915,983	20,341,957	6,204,111	192,068,178	87,675,743	141,435,767		1,033,536,211
Supplies	206,595,675	27,944,636	20,000,853	5,115,415	1,521,885	69,169,217	21,636,492	68,749,181		420,733,354
Malpractice and other insurance	7,446,572	(1,952,121)	19,332,652	(490,409)	555,660	9,923,620	196,936	28,136,851		63,149,761
Administrative and general	339,764,475	59,217,806	85,495,582	20,602,536	10,767,837	157,480,851	71,082,051	70,037,127	(1,321,350) (2)	813,126,915
Depreciation and amortization	60,017,070	10,603,770	3,680,546	2,385,335	439,047	23,841,307	10,658,750	23,084,094		134,709,919
Interest	18,909,903	3,973,914	4,498,828	424,371		5,572,983	4,096,271			37,476,270
Total expenses	1,048,953,430	171,462,742	230,924,444	48,379,205	19,488,540	458,056,156	195,346,243	331,443,020	(1,321,350)	2,502,732,430
INCOME (LOSS) FROM OPERATIONS	143,445,956	6,789,083	(44,618,454)	10,916,014	(11,928,711)	35,608,843	7,386,715	(22,569,861)	0	125,029,585
OTHER INCOME (EXPENSE):										
Investment income								934,125		934,125
Gain on extinguishment of debt	2,067,823	1,171,283	1,214,664	115,683		1,482,180	1,113,443			7,165,076
Other (expense) income	(1,795,307)	(298,342)	(57,216)	271,495	65,394	567,391	(916,605)			(2,163,190)
OTHER INCOME (EXPENSE)	272,516	872,941	1,157,448	387,178	65,394	2,049,571	196,838	934,125		5,936,011
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES) BEFORE INCOME TAX PROVISION	143,718,472	7,662,024	(43,461,006)	11,303,192	(11,863,317)	37,658,414	7,583,553	(21,635,736)	0	130,965,596
INCOME TAX PROVISION	1,763	5,461	353			3,954				11,531
EXCESS OF REVENUES OVER EXPENSES (EXPENSES OVER REVENUES)	\$143,716,709	\$7,656,563	(\$43,461,359)	\$11,303,192	(\$11,863,317)	\$37,654,460	\$7,583,553	(\$21,635,736)	\$0	\$130,954,065

Notes:

(2) To eliminate intercompany revenue and expense transactions